Commonwealth of Massachusetts

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Martin J. Benison, CGFM
Comptroller of the Commonwealth

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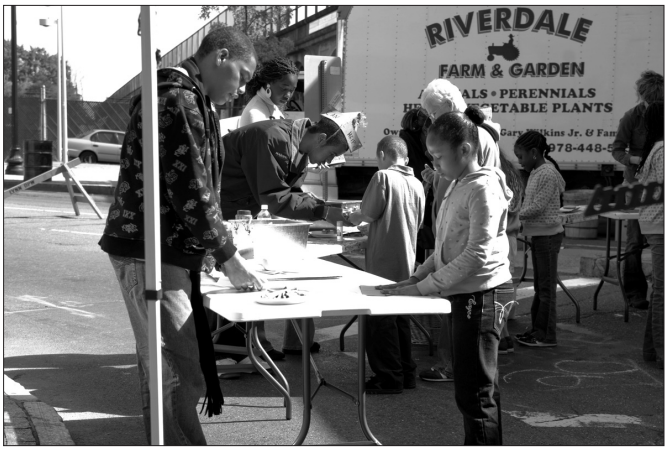
Massachusetts WORLDFEST

The Massachusetts Office of Travel & Tourism (MOTT) and the Massachusetts Cultural Council (MCC) partnered this year to create WorldFest, a celebration of Massachusetts' summer cultural festivals. Bay Staters and visitors alike visited massvacation.com/WorldFest to view a listing of multicultural events taking place in the Commonwealth between Memorial Day and Labor Day.

Many of these festivals and celebrations have little funding and benefited greatly from this promotion. By attending these events participants were able to experience and enjoy a wide variety of local and international performers, cultural exhibits, traditional music, dance and art from around the world but in their own backyard.



"We may have different religions, different languages, different colored skin, but we all belong to one human race."

Kofi Annan

Third Thursdays

The Central Square Collaborative is composed of organizations and businesses with an interest in the redevelopment of downtown Lynn. The group includes arts and culture organizations, realtors, community service organizations, the City of Lynn and resident business owners. Their goal is to promote the downtown area by advancing awareness of local business and cultural opportunities, encouraging new business development, and advertising downtown real estate. In 2005 the Collaborative initiated Third Thursdays, based on similar programs in other cities. Once a month in Lynn's Central Square, hundreds of people gather to hear live music, participate in children's activities, see hands-on art demonstrations, visit open studios, art openings and shop later hours at local businesses and select produce at the Farmers' Market.

Text from Central Square Collaborative
Photography courtesy of Vinh Nguyen

The cover collage is comprised of images from events and festivals that were part of Worldfest. Individual credits are noted with the photography included in this volume.

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

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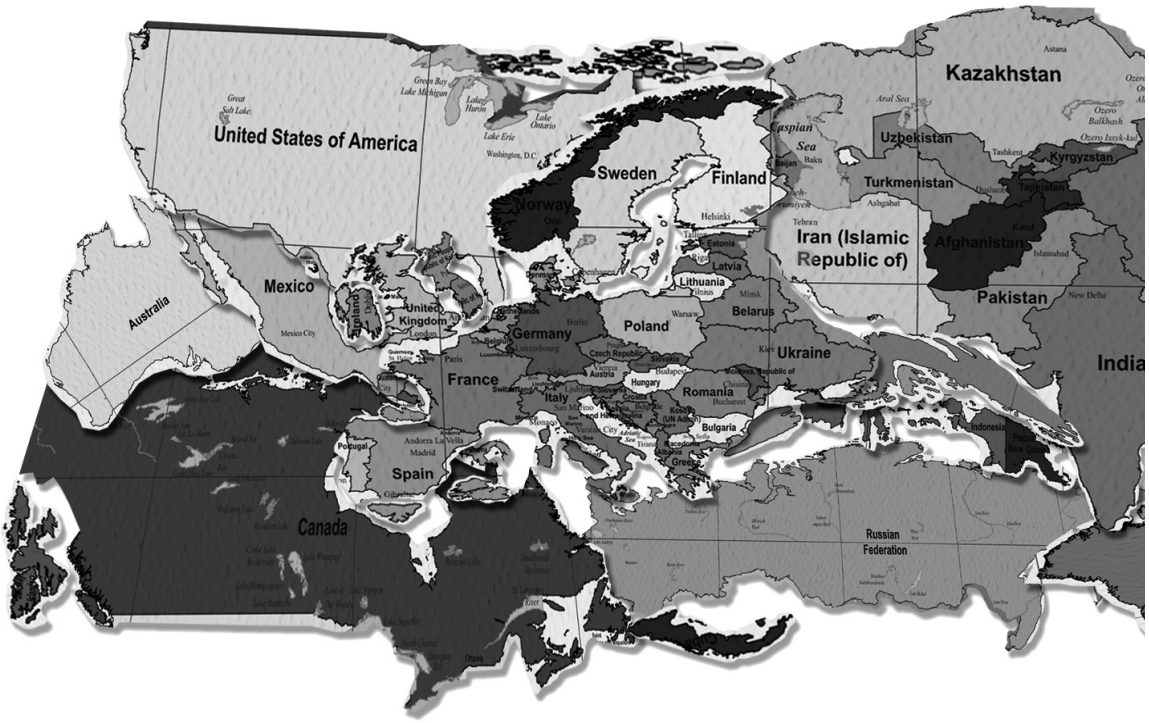
We are, as we have always been, a Commonwealth of recent immigrants and descendants of immigrants. More than half of our refugees come from Africa and the former Soviet Union, while more than half of our immigrants come from Latin America and Asia. Massachusetts is fortunate to have one of the most diverse and vibrant refugee and immigrant populations in the world.

Immigrants make up over 14 percent of the Massachusetts population and 17 percent of its workforce, and are the key to continued growth. According to research commissioned by the Immigrant Learning Center, immigrants and refugees now make up more than a quarter of all key positions in the Massachusetts health care sector, including pharmacists, surgeons, nurses and home care assistants. Immigrants make up a quarter of all owners of biotech firms in Massachusetts.



This year, Governor Patrick launched the Massachusetts New Americans Agenda, an economic and social plan to help Massachusetts develop an integration-based agenda for refugees and immigrants and support for the communities where they live.

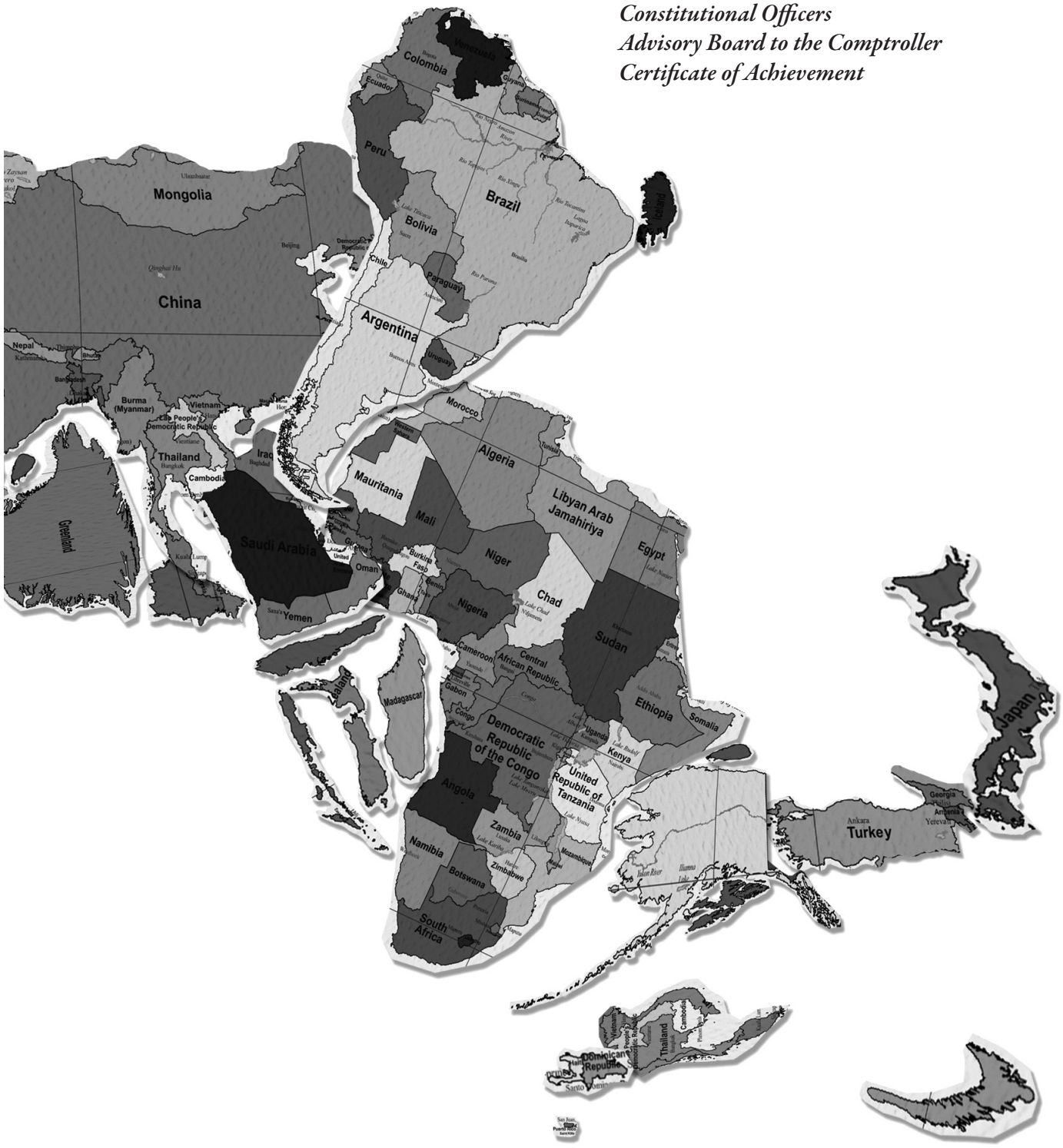
Massachusetts' New Americans Agenda has already attracted the support of national and local foundations: The Carnegie Foundation, Barr Foundation, The Bob Hildreth Charitable Foundation, Partners Health, as well as private donors who believe in the initiative's grassroots commitment to advancing comprehensive immigrant and refugee integration agenda.

Collage map designed to promote Worldfest, courtesy of the Massachusetts Office of Travel & Tourism.

Information provided by the Massachusetts Office of Refugees & Immigrants

Introductory Section

Letter of Transmittal
Acknowledgements
Commonwealth Organizational Structure
Constitutional Officers
Advisory Board to the Comptroller
Certificate of Achievement



India Day

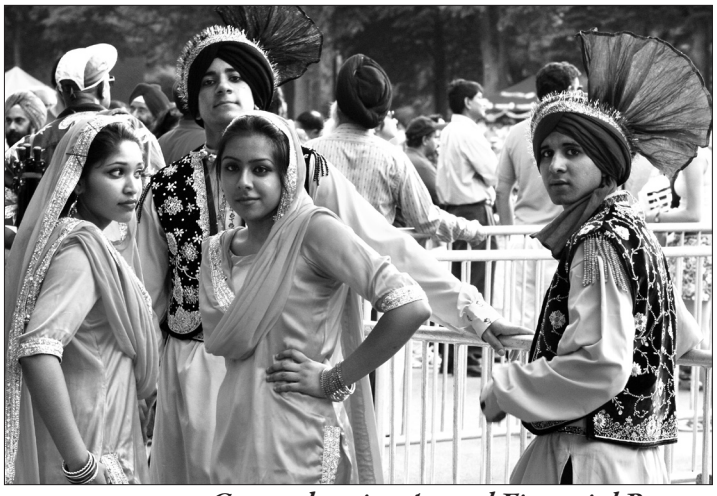
The 61st anniversary of India's independence from British rule on August 15, 1947, took place on Boston's Hatch Memorial Shell and the Esplanade. Over 15,000 people attended this free, spectacular cultural event.

About 500 dancers, singers and musicians gave a diverse selection of vibrant performances showcasing the rich traditions, culture and heritage of India including colorful and vibrant dance numbers, music items, Bollywood dances, traditional, regional and modern folk dances, as well as classical dance styles like Bharatanatyam and Odissi, and high-energy folk dances like the Garba, Gidda and Bhangra.

Indian food was available for purchase. In addition, several Indian American organizations set up informational booths on the lawns. Activities ranged from henna paintings to complimentary health check-ups by the Indian Medical Association of New England, to children's activities by the Museum of Science.

This was sponsored by the India Association of Greater Boston who's mission is to preserve and foster Indian culture and to strengthen Indo-American friendship.

Text from India Association of Greater Boston
Photography courtesy of Ganesh Davuluri
(rigvedam@gmail.com)



Martin J. Benison, Comptroller
One Ashburton Place
Boston, MA 02108

December 23, 2008

To the Citizens of the Commonwealth of Massachusetts, Governor Deval L. Patrick, Lieutenant Governor Timothy P. Murray, and Honorable Members of the General Court

I am pleased to transmit the Commonwealth's fiscal year 2008 (FY08) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. The objective of this report is to provide a clearer picture of our government as a single, unified entity.

This document presents the Commonwealth's financial information on three bases of accounting, each serving a different purpose. The back of the report includes as "required supplementary information" budgetary basis statements, which are prepared in accordance with the Commonwealth's budgetary basis of accounting or statutory basis. More detailed information on the statutory basis of accounting and the results of operating on that basis from FY08 are found in the Statutory Basis Financial Report (SBFR) separately issued this past October. The SBFR report documents compliance with the legislatively adopted budget at a fund level. Further documentation is found within the Commonwealth's accounting system, the Massachusetts Management Accounting and Reporting System (MMARS). Each state maintains different rules for budgetary reporting and therefore the SBFR should not be used for comparison across states.

The fund perspective statements on pages 44 to 47 present the governmental operations on a modified accrual basis of accounting. The fund perspective is designed to measure inter-period equity, the extent to which current resources (available within the next year) fully fund all current services provided by the government. Long-term liabilities are excluded with the implicit assumption that future tax revenues will fund these liabilities as they come due. This fund perspective provides results similar to the statutory basis financial statements published in October.

In addition to the fund perspective, this CAFR presents a government-wide perspective. This perspective combines all governmental and business activities in a statement of net assets and a statement of activities, presenting all functions on a full accrual basis of accounting.

All capital assets, including road and bridge infrastructure, are added to the statements as are all long-term liabilities. Funds that are shown as fiduciary under the fund perspective are not portrayed in the government-wide statements, as the assets do not belong to the Commonwealth.

In the government–wide statements, the balance sheet has been organized into a "net assets format." This format classifies all assets and liabilities as short and long-term and then subtracts liabilities from assets to arrive at net assets.

The Commonwealth's government-wide revenues, expenses and activities are included in the statement of activities. The expenses of the Commonwealth, organized by activity, are netted against fees, fines, grant revenues and assessments generated to fund each activity in an attempt to derive the net cost to the taxpayer of each activity. The format allows the reader of the financial statements to discern the net cost of a particular function of government funded by taxation and other general revenues by a review of this statement.

This CAFR is presented in three sections: **Introductory**, **Financial** and **Statistical**. This **Introductory Section** contains an overview of current initiatives and summary financial data. The **Financial Section** contains a Management's Discussion and Analysis (MD&A) section, and the Commonwealth's Basic Financial Statements. GAAP requires that management provide a narrative overview and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement MD&A where the financial analysis is now presented. The Commonwealth's MD&A can be found immediately following the independent auditors' report. The **Statistical Section** contains selected financial and demographic information. It also contains background information on the Commonwealth.

PROFILE OF THE COMMONWEALTH

The Commonwealth of Massachusetts was the sixth of the original 13 colonies to ratify the United States Constitution, joining the United States on February 6, 1788. Boston, the capital of the Commonwealth since its founding, dates from 1630. The Commonwealth has an area of 8,257 square miles. Geographically, the Commonwealth includes 351 cities and towns. The largest city is the capital, Boston. Employment is largely in the education, health services, wholesale and retail trade, warehousing and public utilities sectors. The Massachusetts Constitution was ratified in 1780 while the Revolutionary War was still in progress, nine years before the United States Constitution was adopted. It is the oldest written Constitution now in use in the world. It specified three branches of Government: Executive, Legislative, and Judicial. "The Great and General Court," elected every two years, is made up of a Senate of forty members and a House of Representatives of one hundred and sixty members. The Massachusetts Senate is the second oldest democratic deliberative body in the world.

The table on page 3 reconciles the fund balances on three basis of accounting, the statutory basis presented in separately issued financial statement this past October, the fund basis, and entity wide basis statements, included in this report.

Governmental Funds - Statutory to GAAP - Fund Perspective and to Governmental Net Assets

(Amounts in millions)

Governmental Funds - Statutory Basis, June 30, 2008:			
Budgeted Fund Balance	$	2,405.8	
Non Budgeted Special Revenue Fund Balance		1,910.1	
Capital Projects Fund Balance		(205.7)	
Governmental Fund Balance - Statutory Basis, June 30, 2008			**$ 4,110.3**
Plus: Expendable Trust and Similar Fund Statutory Balances that are considered Governmental Funds for GAAP reporting purposes			452.3
CA/T Owner Controlled Insurance Program Net Assets			77.1
Trust fund reclassified as Permanent trust fund			5.0
Adjusted Statutory Governmental Fund Balance			**4,644.6**
Short term accruals, net of allowances and deferrals for increases /(decreases):			
Taxes, net of refunds and abatements	$	1,632.5	
Tobacco Settlement Agreement receivable		144.1	
Medicaid		(285.6)	
Other short term accruals:			
Assessments and other receivables		142.6	
Amounts due to authorities and municipalities, net		(401.1)	
Claims, judgments and other risks		(27.0)	
Amounts due to health care providers and insurers		(101.2)	
Workers' compensation and group insurance		(101.0)	
Other accruals, net		(159.7)	
Net increase to governmental fund balances		**843.6**	
Massachusetts School Building Authority fund balance		**1,574.5**	
Total changes to governmental funds			**2,418.1**
Governmental fund balance (fund perspective)			**$ 7,062.7**
Plus: Capital assets including infrastructure, net of accumulated depreciation			18,620.6
Deferred inflows of resources, net of other eliminations			640.2
Long term accruals:			
Pension Benefits cumulative over / (under) funding			102.9
Post employment benefits other than pensions cumulative over / (under) funding			(155.7)
Massachusetts School Building Authority debt and school construction payables			(7,861.7)
Assets to be transferred related to the Central Artery / Tunnel project			(7,231.5)
Long term debt, unamortized premiums and deferred losses on debt refundings			(18,764.2)
Compensated Absences			(468.6)
Capital leases			(383.8)
Accrued interest on bonds			(300.3)
Other Long term liabilities			(422.1)
Total governmental net assets (entity wide perspective)			**$ (9,161.5)**

REPORTING ENTITY

The financial statements incorporate activity from over 150 departments. These departments include the various agencies, boards, and commissions, the 25 institutions of higher education, the judicial and legislative branches of government, and constitutional offices. The departments record their daily financial operations in the state accounting system, MMARS, operated by the Office of the Comptroller.

In addition, the financial statements include 35 independent public authorities. These entities, along with the State Employees' and Teachers' Retirement systems are defined as component units and meet the criteria for inclusion in the Commonwealth's reporting entity in accordance with GAAP. They are further described in Note 1 to the basic financial statements. The Massachusetts School Building Authority is blended into the Commonwealth's operations. The Metrowest Regional Transit Authority began operations this year and is included as a discretely presented component unit.

ECONOMIC CONDITION

Problems in the subprime mortgage and other credit markets have developed into a nationwide recession in the housing market, the Commonwealth continued to outperform the rest of the nation. The Commonwealth's per capita net income is over 27% above the national average, rising 6% for calendar year 2007. Unemployment levels were consistently less than the national average, even after year end when they have risen dramatically to 5.9% for the Commonwealth, almost a percentage point less than the nation as a whole. The Commonwealth continues to contain a large employment base of education, as well as health and human service positions that somewhat stabilize the economy. But even those institutions are not immune from a deep recession. Furthermore, concerns are long held in the Commonwealth about housing affordability costs. Further economic data on the Commonwealth in comparison to the rest of the nation is found in the statistical section to this report.

In the United State's General Accountability Office's (GAO) September 2008 report on the nation's long term fiscal outlook, which includes some of the data from the recent economic downturn, combined federal, state and local deficits are expected to reach 5% of the nation's gross domestic product (GDP) by 2010, 10% between 2020 and 2025 and 20% by 2040. According to the GAO, the costs of social insurance programs and the net interest charges of the federal government will constrain state and local levels in the future to the point where the fiscal burden of these and other long term costs was reported at $455,000 per person as of December 2007. For the Commonwealth's 6.4 million residents, the total bill coming due for these burdens is nearly $3 trillion. The costs of the recent federal actions will only increase this figure. The Commonwealth's finances have similar signs of uncertainty.

INDEPENDENT AUDIT

The Commonwealth's independent auditors, KPMG LLP with assistance by the Office of the State Auditor (OSA) have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2008. OSA also plays a significant role in the audit of the Schedule of Federal Financial Assistance of the Commonwealth, as prescribed in the Federal Office of Management and Budget's Circular A-133. The independent auditors' report is presented in the Financial Section.

The OSA is statutorily mandated to perform audits of the accounts, programs, activities and functions of all departments, offices, commissions, institutions and activities of the Commonwealth. OSA provides its knowledge, expertise, experience and resources as a participant in the single audit of the Commonwealth, which encompasses all of the Commonwealth's financial operations. A more complete discussion of this work can be found in the State Auditor's annual report available on their web site: http://www.mass.gov/sao.

The Office of the Comptroller prepares these financial statements and is responsible for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Office of the Comptroller, working in conjunction with the State Auditor, has established a comprehensive internal control framework that is designed to protect the Commonwealth's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Commonwealth's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Commonwealth's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement.

I would like to express my thanks to the many dedicated employees within the Office of the Comptroller. Continuing to carry out our mission and meet the goals that are set, meant another successful year. I am proud to have them all on my team as another year of initiatives is now underway.

Respectfully submitted,

Martin J. Benison
Comptroller of the Commonwealth

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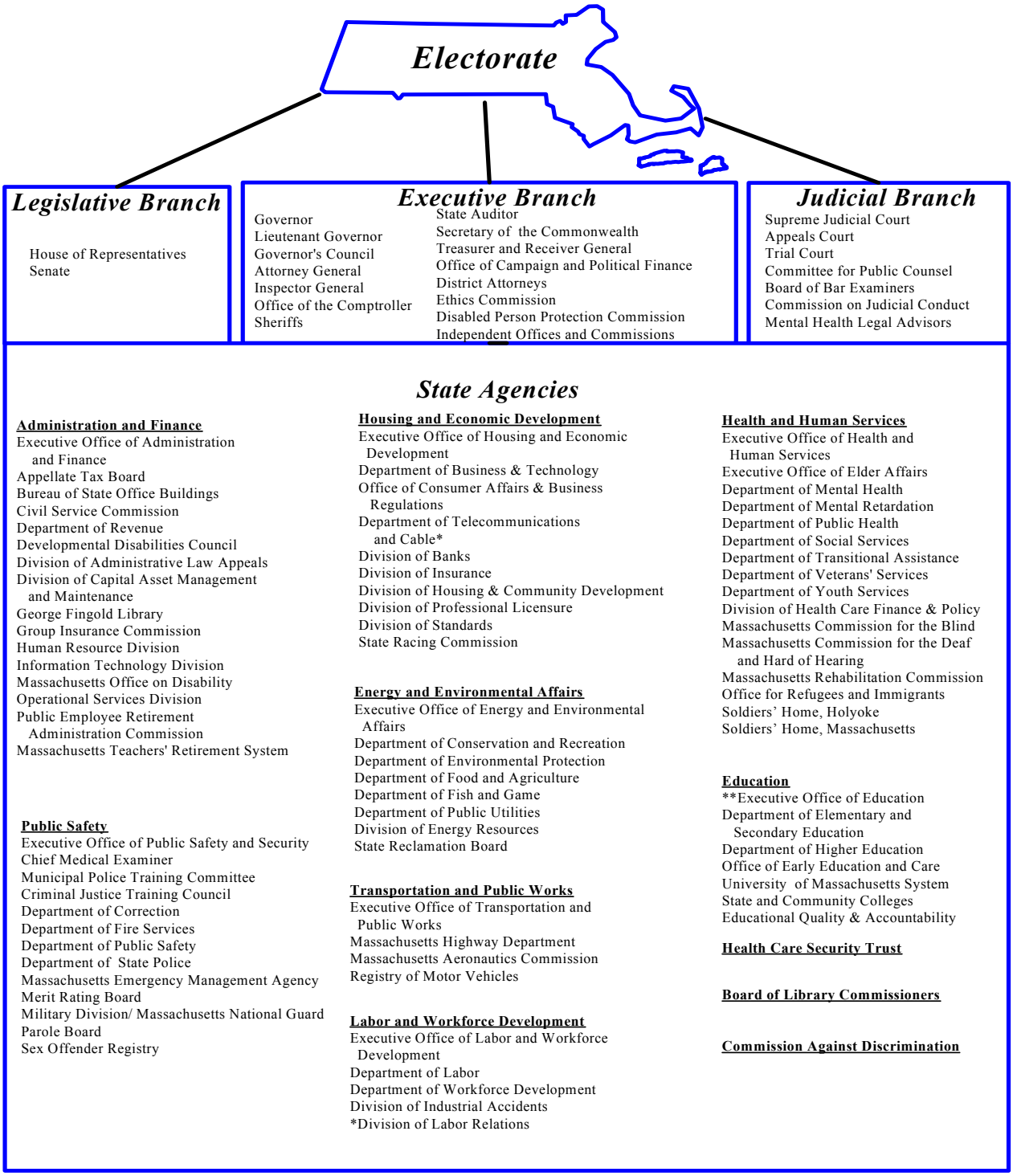

As of June 30, 2008

**Established November 12, 2007 in accordance with Article 87 of the Massachusetts Constitution*

***Established March 10, 2008 in accordance with Article 87 of the Massachusetts Constitution*

CONSTITUTIONAL OFFICERS

Deval L. Patrick
Governor

Timothy P. Murray
Lieutenant Governor

William F. Galvin
Secretary of State

Martha Coakley
Attorney General

Timothy P. Cahill
Treasurer and Receiver-General

A. Joseph DeNucci
Auditor

LEGISLATIVE OFFICERS

Therese Murray
President of the Senate

Salvatore F. DiMasi
Speaker of the House

JUDICIAL OFFICERS

Margaret H. Marshall
Chief Justice, Supreme Judicial Court

Phillip Rapoza
Chief Justice, Appeals Court

Robert A. Mulligan
Chief Justice for Administration and Management, Trial Court

ADVISORY BOARD TO THE COMPTROLLER

Leslie A. Kirwan (Chair)
Secretary for Administration and Finance

A. Joseph DeNucci
Auditor

Timothy P. Cahill
Treasurer and Receiver-General

Robert A. Mulligan
Chief Justice for Administration and Management, Trial Court

Martha Coakley
Attorney General

Diana Salemy
Gubernatorial Appointee

Green River Festival

Over the past twenty years, the Green River Festival headliners have been a who's who of the folk, country and roots music scene. Begun in 1986 as a balloon festival, it has gained increasing popularity each year as more and more musical entertainment was incorporated. Today it has become the premier summer musical event in Western Massachusetts.

Photography courtesy of the Franklin County Chamber of Commerce

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Massachusetts

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Photography courtesy of Michael Ivins, Boston Red Sox

Financial Section

Independent Auditors' Report
Management's Discussion and Analysis
Basic Financial Statements
Notes to the Basic Financial Statements
Required Supplementary Information Other Than Management's Discussion and Analysis
Other Supplementary Information

What divides us pales in comparison to what unites us.

US Senator Edward Kennedy

Fenway Park's First Naturalization Ceremony

On September 17th, 2008, Fenway Park hosted its first naturalization ceremony. Over 3,000 people from 139 countries became American citizens. The Honorable Judge Patti Saris from the U.S. District Court presided.

"On behalf of the United States district Judges, let me offer my congratulations. I have been a Federal Judge now for 14 years and these immigration proceedings are still my favorite court event. Usually one side loses a case in my courtroom. Here, everyone wins. You win because after years of struggle and hard work, you finally have achieved a dream—American citizenship which gives you political freedom, religious freedom, and the freedom to succeed economically. Our Constitution is great because it gives you all inalienable rights: The right to vote, serve on juries, hold public office. We in this country also win because our success as a nation depends on the intelligence, drive and commitment of our new citizens. Today is a very special day because Constitutional Day and the Citizenship Day in the United States, an event which combines a celebration of the signing of the Constitution of the United States on September 17, 1787 and a recognition of all new United States Citizens."

Text excerpt of Judge Saris's speech
Photography courtesy of Michael Ivins, Boston Red Sox

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INDEPENDENT AUDITORS' REPORT

Mr. Martin Benison, Comptroller
The Commonwealth of Massachusetts
Boston, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts (the Commonwealth), as of and for the year ended June 30, 2008, which collectively comprise the Commonwealth's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Massachusetts, the State Colleges and certain of the Community Colleges all of which are major enterprise funds and represent 72% and 63%, respectively, of the assets and revenues of the business-type activities. We did not audit 50% and 53%, respectively, of the assets and revenues of the Community Colleges major enterprise fund. We did not audit the financial statements of the Massachusetts Municipal Depository Trust which represent 7% and 51% of the total assets and total revenues (including additions and other financing sources) of the aggregate remaining fund information. Additionally, we did not audit the financial statements of certain nonmajor component units, which represent 12% and 8%, respectively, of the total assets and total revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of certain nonmajor component units identified in Note 13 were not audited in accordance with *Government Auditing Standards.* An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

KPMG LLP, a U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2008, on our consideration of the Commonwealth of Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

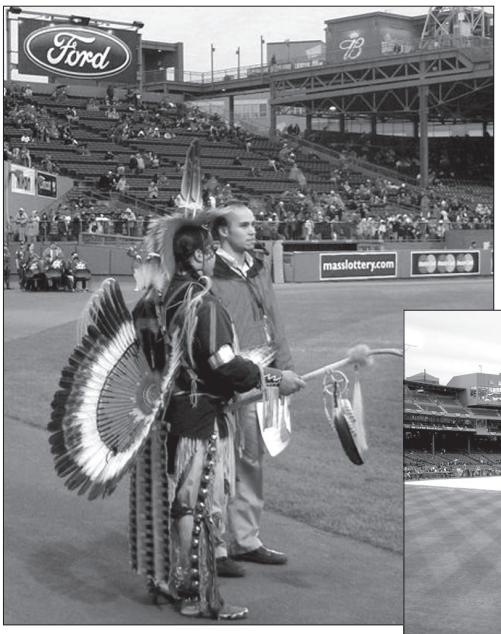
As discussed in Note 9, the Commonwealth adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No, 50, *Pension Disclosures*, as of July 1, 2007.

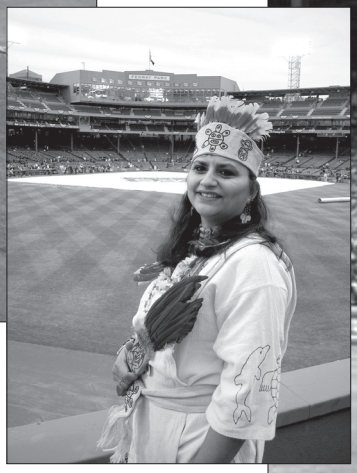
The Management's Discussion and Analysis and Required Supplementary Information, listed in the accompanying table of contents, are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Massachusetts' basic financial statements. The introductory section, other supplementary information and statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 23, 2008





First Nation

This year, Red Sox officials decided to honor team members who were born in other "Nations". During the first two weeks of pre-game shows at Fenway Park, they had Dominican Day, Japanese Day, Puerto Rican Day and Native American Day. Red Sox Outfielder Jacoby Ellsbury. Ellsbury is officially enrolled as a member of the Colorado River Indian Tribes and is the first Native American of Navajo descent to reach the Major Leagues. Massachusetts Center for Native American Awareness was one of the organizations that was contacted to participate. Among the thirty dancers were Claudia Fox Tree and her daughter Cheyenne, who are of Arawak descent, and the Iron River Singers, who also drummed.

There are 11 tribes in Massachusetts: the Chaubunagungamaug Nipmuc Council, Cowasuck Band, Hassanamisco Nipmuc, Mashpee Wampanoag Tribe, Narragansett Tribe of Indians, New England Coastal Schaghticoke Indian Association and Tribal Council, Pocasset Wampanoag Indian Tribe, Quinsigamond Band of the Nipmucs, Rebel Deaf Panther Tribe International, United American Indians of New England and the Wampanoag Tribe of Gay Head (Aquinnah) of Massac.

Photography & Text courtesy of Claudia Fox Tree and the Boston Red Sox

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Management's Discussion and Analysis

This analysis, prepared by the Office of the Comptroller, offers readers of the Commonwealth's financial statements a narrative overview of the activities of the Commonwealth for the fiscal year ended June 30, 2008 (FY08). We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, and with the Commonwealth's financial statements, which follow. This analysis is required by the Governmental Accounting Standards Board (GASB), which provides preparers with guidelines on what must be included in and excluded from this analysis.

Financial Highlights – Primary Commonwealth Government

Government–Wide Highlights

- **Net Assets** – The liabilities of the Commonwealth exceeded its assets at the end of FY08 by nearly $4.6 billion, an improvement of nearly $699 million during the fiscal year. Of the $4.6 billion deficit amount, "unrestricted net assets" is reported as a negative $9.9 billion, offset by $3.4 billion in "restricted net assets". There are two primary reasons for negative unrestricted net assets. Legislation mandates that the Highway Department transfer the Central Artery / Third Harbor Tunnel (CA/T) to the Massachusetts Turnpike Authority and the Massachusetts Port Authority upon completion. Although the transfer has not been completed amounts not transferred are recorded as a payable to these entities. The Commonwealth, however, paid for the construction of these assets and retains a large amount of related debt. Similarly, the Commonwealth has a liability of $3.8 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA). MSBA will begin approving grants in FY09. Because of the statutory prohibition of the MSBA from accepting applications for new school construction until July 1, 2007, this overall liability of $3.8 billion decreased by approximately $709 million during FY08 due to grant payments made to municipalities during the year and reductions of grant payment obligations due to audits done by MSBA. During the fiscal year, approximately $1.7 billion in restricted net asset balances were set aside for unemployment benefits and an additional approximate $926 million was restricted for debt retirement.

- **Health Care Reform Legislation –** Implementation of the Commonwealth's landmark Health Care Reform law continued in FY08. Health insurance coverage of individuals expanded significantly during the first year of the mandate that all individuals in the Commonwealth maintain coverage. Total General Fund transfers into the Commonwealth Care Trust Fund rose to approximately $1 billion in FY08, up from $722 million in FY07. This reflected increasing enrollment in Commonwealth Care, with nearly 440,000 residents having newly enrolled in health insurance through a combination of private and public programs by April of 2008. One impact of this is a reduction in free care through the state's hospitals and community health centers.

The Commonwealth operates the majority of its Medicaid program under a federal section 1115 demonstration project waiver. This waiver expired on June 30, 2008. The federal government granted extensions for the July 1, 2008 to June 30, 2011 period during July, August and September of 2008 (FY09) during the negotiation process. On September 30, 2008, the Commonwealth announced it had reached an agreement in principle with the federal government for this waiver, including health care reform provisions. The agreement authorizes federal reimbursement for approximately $21 billion in spending from FY09 through FY11, $4.3 billion more in spending than was authorized for FY06 through FY08. Federal reimbursement will be able to be claimed for all programs at current eligibility and benefit levels, including Commonwealth Care's subsidized coverage of adults up to 300% of federal poverty level.

In addition, subsequent to year end and to further subsidize health care reform, the Commonwealth adopted revised regulations that require employers with 11 or more full-time equivalent employees to make a "fair and reasonable" premium contribution to their employees' health insurance or pay a fee to the Commonwealth. Previously, the regulations provided that an employer met the "fair and reasonable" contribution standard if either (i) 25% or more of its full-time employees enrolled in the employer's group health plan or (ii) it offered to contribute at least 33% towards the premium cost for a group health plan for full-time employees who worked at least 90 days. The revised regulations, which will take effect January 1, 2009, maintain this test for firms with 50 or fewer full-time employees but require larger firms to meet both the employee enrollment and the employer contribution standards. Moreover, under the revised regulations, firms would also be considered to meet the "fair and reasonable contribution" standard if 75% or more of their full-time employees enroll in their group health plans.

- **Post-Employment Benefits Other than Pensions – (OPEB)** – This report is the first report to show the impact of OPEB on the net assets of the Commonwealth.

  On August 5, 2008, a Special Commission to study OPEB released its report. The bi-partisan Commission was comprised of members of the House and the Senate and the Administration. The report recommends that tobacco settlement proceeds be used to fund OPEB phasing in over four years to 90% of proceeds. Because of this phase in and partial funding plan for OPEB, a discount rate of 6/4% was chosen to determine the unfunded actuarially accrued liability which reflects an approximate midpoint of a range of valuations that were performed in FY06. The total unfunded actuarial accrued liability for OPEB as of June 30, 2008 stands at approximately $11.3 billion.

  The differential between the actuarially required contribution and the contributions that the Commonwealth has made during FY08 is presented as a liability on the Statement of Net Assets. The liability of approximately $156 million will decrease the amount of

contributions required in the coming years adjusted by the amount of contributions made adjusted for interest on those unpaid amounts.

To fund OPEB, the Commonwealth enacted an irrevocable trust, the State Retiree Benefits Trust Fund, which will invest contributions (PAYGO and additional funding) and pay benefits. During FY08, the Legislature enacted transfers of approximately $355 million and in addition, directed the transfer of the residual balance of tobacco settlement monies in the Health Care Security Trust (HST) as of June 30, 2008. Because of transfers out of the Health Care Security Trust Fund to fund other operations and due to market declines, the balance in the Health Care Security Trust amounted to approximately $328 million, net of payables, combined, amount to approximately $683 million, or $156 million below the actuarially required contribution of approximately $839 million. A legislative study commission has recommended using portions of future tobacco settlement monies as one of the ways to fund OPEB in the future.

- **Lottery Deficit** – In FY08, the State Lottery transferred approximately $935 million in the aggregate to municipalities as mandated by the general appropriation act, regardless of the actual amount available in the State Lottery Fund. Lottery revenues for FY08 increased 5.2% to approximately $4.9 billion. Prizes were approximately $3.9 billion and operating expenses and the mandated transfers were nearly $1.1 billion. Subsequent to year end, legislation was passed transferring up to $81 million from the General Fund into the Lottery to cure a portion of the current year deficit and an additional approximately $119 million from the General Fund to cure the FY07 deficit, reducing the Lottery's deficit to approximately $30 million. A transfer to eliminate this balance will be made in FY09. To help ensure that the Lottery Fund remains stable, the FY09 budget provides for $811 million in local aid from the Lottery Fund and an additional $124 million from the General Fund.

- **Changes in Net Assets** – The Commonwealth's net assets increased by nearly $699 million in FY08. Net assets of governmental activities increased by about $435 million. The increase in net assets is primarily attributable to the aforementioned school construction activity and increased tax revenues. Tax revenues rose by nearly $1.2 billion above prior year collections. Expenses of governmental activities were nearly $38.8 billion. This increase from FY07's $36.0 billion is attributable to increase in Medicaid expenses of over $725 million and an increase in Health and Human Services expenditures of approximately $1.3 billion. However, major categories of expenses rose, led by Medicaid costs.

Revenue for the Commonwealth, net of transfers, but including taxes, investment income and tobacco settlement income from governmental activities was nearly $44.8 billion. Net assets of the business – type activities showed an increase of nearly $263 million.

Fund Highlights

Governmental Funds – Fund Balances – At June 30, 2008, the Commonwealth's governmental funds reported a combined ending fund balance of nearly $7.1 billion. Of the $7.1 billion:

- Nearly $6.1 billion represents unreserved and undesignated fund balance. Fund balances decreased by over $673 million. The Highway Fund's chronic deficit was eliminated due to a fund deficit consolidation act passed during the year. The unreserved and undesignated fund balance of over $6.1 billion only includes a deficit for the Lottery Funds. Similar to last year, approximately $144 million has been declared as a receivable in the governmental funds related to anticipated tobacco settlement proceeds in FY09. Due to the fund deficit elimination act Lottery had a net increase in fund balance of approximately $85 million.

- The MSBA's fund balance of approximately $1.6 billion is blended into the Commonwealth. Within this fund balance are nearly $2.0 billion in cash and investment contracts funded by bond proceeds of $455 million, and other assets less approximately $600 million in current liabilities. Nearly $638 million was apportioned to the MSBA from the Commonwealth from sales taxes.

- Governmental reserved fund balances total over $1.0 billion. The vast majority of this is nearly $910 million reserved for retirement of indebtedness, the vast majority of which is held in escrows related to refunding bonds and to pay grant anticipation notes. Of the remaining portion, $77 million is reserved for the CA/T owner controlled insurance program for workers' compensation and general liability.

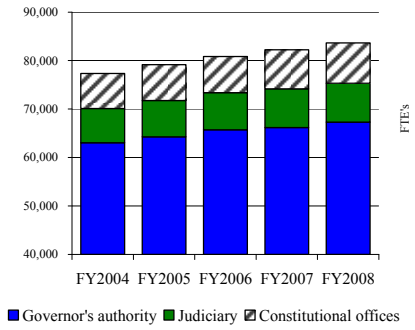
Highlights of FY08 – financial operations include:

- The Commonwealth took specific activities in the Stabilization Fund this year to help attain fiscal balance, including transferring $75 million in investment earnings and $240 million in principal to the General Fund. In FY09, all of the Stabilization Fund investment earnings and $310 million in principal will transfer to the General Fund.

- Tobacco settlement proceeds for the year were approximately $288 million, all of which were used to support current operations. The master settlement agreement with the tobacco manufacturers (MSA) estimates Commonwealth revenues for the first 25 years of the settlement to be approximately $7.6 billion. However, this estimate is subject to future adjustments, including adjustments for inflation and changes in the volume of domestic cigarette sales. Approximately 87.4% of the estimated amounts shown in the MSA were received in FY08. Receipts were up in FY08 due to the initial Strategic Contribution Fund payments under the terms of the MSA. These payments are projected to be received through FY17. $157 million of the HST fund balance also transferred to the General Fund during FY08 pursuant to legislation, along with an additional $36 million of investment earnings transferred to the General Fund. After these transfers, the remaining net balance of approximately $328 million transferred to the State Retiree Benefits Trust Fund.

- Full time equivalent employee counts grew by approximately 2% this year, to approximately that of 2001. The graphic to the left details the changes over the last five years.

Full Time Equivalent Workforce Including Higher Education June 2004 – June 2008



OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commonwealth's basic financial statements. The Commonwealth's basic financial statements are composed of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the statutory basis of accounting, as well as other supplementary information.

Government–wide Financial Statements

The government-wide financial statements present the reader with a broad overview of the Commonwealth's finances in a manner similar to a private sector business. The statements include the *Statement of Net Assets,* which presents the assets, liabilities and net assets for the government as a whole. Also presented is the *Statement of Activities*, which presents the functional expenses, offsetting revenues and changes in net assets of the Commonwealth. Both of the statements have separate sections for three different categories of the Commonwealth's operations. These activities are *Governmental Activities, Business-Type Activities and Discretely Presented Component Units.*

The government–wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements and Component Unit Financial Statements

Funds are groups of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Within the funds, budgetary compliance is demonstrated at the appropriation level for budgeted expenditures.

Fund financial statements focus on individual parts of the Commonwealth government, reporting its operations in more detail than the government–wide statements. All of the funds of the Commonwealth can be divided into three categories. It is important to realize that these fund categories use different bases of accounting and should be interpreted differently. The three categories of funds are *Governmental Funds, Proprietary Funds and Fiduciary Funds.* Further discussion on the funds can be found in the section "Financial Analysis of the Commonwealth's Funds" and in Note 1 to the financial statements.

Component unit financial statements are presented for entities where the Commonwealth has financial accountability, but are independent of the core Commonwealth operations. Most operate similar to private-sector businesses.

Notes to the Financial Statements, Required Supplementary Information and Other Supplementary Information

The notes provide additional information that is essential to a full understanding of the financial statements as of the date provided in the government–wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units' financial statements.

The required supplementary information section includes budgetary comparison schedules for the General and Highway Funds, along with a reconciliation comparing the original general appropriation act, and supplemental appropriations compared with actual budgetary spending. Variance columns are also provided. A further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures is provided. A schedule of pension funding progress is also included in this section.

GOVERNMENT–WIDE FINANCIAL ANALYSIS

Other supplementary information is not required, but is included to present combining schedules of minor governmental funds.

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. The Commonwealth's combined net assets (governmental and business-type activities) showed a net deficit of nearly $4.6 billion at the end of FY08. The *unrestricted net assets* are negative by over $10.0 billion. A substantial portion of this deficit is a result of four programs where the Commonwealth decided to fund assets that are owned by political subdivisions of the Commonwealth. The most significant example is the Central Artery / Tunnel Project (CA/T) costs. Pursuant to the Metropolitan Highway System legislation from 1997, the CA/T will transfer to the Massachusetts Turnpike Authority (MTA) and to the Massachusetts Port Authority (Massport) upon completion. Portions that have not been transferred are shown as payables on the Statement of Net Assets. While the assets will be owned by the Turnpike Authority and Massport (a related organization,) a large portion of the liabilities will remain with the Commonwealth. To date, over $14.6 billion of the related assets have entered into service or have been transferred. The non-right of way portion of these assets is depreciating over forty years until transferred.

Major Long – Term Obligations for Assets of Political Subdivisions (amounts in thousands)

School construction grants payable……	$ 3,771,421
Outstanding bonds issued to fund the MBTA	309,203
Central Artery / Tunnel Project to be transferred to the Turnpike.....	6,866,456
Central Artery / Tunnel Project to be transferred to Massport.....	365,000
Change in unrestricted net assets due to items unique to the Commonwealth.....	$ 11,312,080

Another example of this type of arrangement is the MSBA. In FY05, legislation changed the funding of school construction from a direct appropriation of the Commonwealth to a dedicated portion of the sales tax administered by the MSBA. In FY08, the amount of MSBA's grants payable dropped by nearly $709 million due to grant payments made to municipalities and reduction of obligations due to audits. Because of the nature of transactions between the Commonwealth and this authority, per GASB Statement 39, the authority's operations are reported within a governmental fund in this report and on the government–wide financial statements.

There are two other instances related to authorities, where the Commonwealth incurs debt, but has no related assets. The first is for debt that was issued to fund an 18-month lag in operating subsidy costs, otherwise known as "forward funding," of the Massachusetts Bay Transportation Authority (MBTA) a change enacted in FY00. The second is the contractual assistance obligations to other authorities to help subsidize their debt service. The majority of these assistance obligations are for the Massachusetts Water Pollution Abatement Trust. As of June 30, 2008, the outstanding debt remaining related to the "forward funding" costs of the MBTA was approximately $309 million, inclusive of unamortized bond premiums.

Exclusive of fiduciary assets, the Commonwealth's current cash and investments increased by over $863 million between July 1, 2007 and June 30, 2008. Tax revenues and charges for services increased due to higher Lottery sales, Medicaid and other health and human services receipts, along with increased revenues at state and community colleges. Higher education costs though continue to grow overall. Commercial paper borrowing continued in FY08 due to the timing of current year receipts and current year major expenses such as the payment of local aid, though at a lower volume than in previous years due to improving tax revenues.

Noncurrent assets increased by nearly $132 million. The increase is attributable to growth in receivables and endowments at institutions of higher education, but decreases in long term cash and investments.

Over $21.6 billion of the Commonwealth's net assets reflect the Commonwealth's investment in traditional capital assets such as land, buildings, infrastructure and equipment, net of accumulated depreciation. GASB requires the reporting of the value of investment in the Commonwealth's infrastructure, including roads, bridges, beaches, dams and other immovable assets to the face of the Commonwealth's financial statements. As these assets provide services to citizens, they are not available to finance future spending unless they are sold. Although the Commonwealth's investment in its capital assets is also reported net of related debt, it must be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The bulk of the Commonwealth's net assets are comprised of its capital assets and long – term liabilities. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. The Commonwealth's current assets were over $11.6 billion, while its current liabilities were over $7.8 billion. Restricted net assets represent resources that are subject to external constraints. The tables below portray the Commonwealth's net assets and the changes to those net assets for the fiscal year. In addition, net assets of higher education foundations have been included as part of the business – type activities.

Net Assets as of June 30, 2008 and 2007
(in millions of dollars)

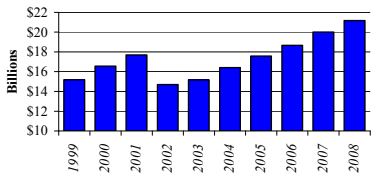
	Governmental Activities		Business - Type Activities		Total Primary Government	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Current and other non-capital assets….	$ 13,884	$ 14,383	$ 4,467	$ 4,094	$ 18,351	$ 18,477
Capital assets……	18,621	18,550	3,006	2,739	21,627	21,289
Total Assets……	32,505	32,933	7,473	6,833	39,978	39,766
Long term liabilities……	34,549	35,361	2,158	1,773	36,707	37,134
Current liabilities……	7,118	7,169	718	727	7,836	7,896
Total Liabilities……	41,667	42,530	2,876	2,500	44,543	45,030
Net assets:						
Invested in capital assets, net of related debt……	447	489	1,562	1,392	2,009	1,881
Restricted*……	979	994	2,390	2,296	3,370	3,290
Unresticted*……	(10,588)	(11,080)	644	645	(9,943)	(10,435)
Total Net Assets (deficits) ….	$ (9,162)	$ (9,597)	$ 4,597	$ 4,333	$ (4,565)	$ (5,264)

* FY07 Restated due to change in accounting principles

Changes in Net Assets

The Commonwealth's net assets improved by nearly $699 million between FY07 and FY08. Revenues in general increased, led by tax revenue increases of $1.2 billion. The tax revenue increase is attributable in large part to increases of $1.1 billion in income tax payments, $42 million decrease in corporate taxation and $11 million increase in sales and use tax collections. The Department of Revenue has also implemented sophisticated "data mining" software, which seeks out non-filer data from a multitude of sources. This has increased the amount that has been declared as receivable on the Statement of Net Assets, but also has increased an offsetting allowance for doubtful accounts, as many of these non-filers may be cash-based businesses or are already in financial difficulty.

Revenue from Taxation – GAAP Basis 1999-2008



Operating and capital grant contributions increased $384 million in FY08. However, some of this rise is directly attributable to participation from the federal government in program operations such as Medicaid. Since Medicaid rose approximately $726 million in FY08 and as Medicaid is reimbursed approximately 50% from these participating payments, (approximately $400 million,) then almost the entire increased Medicaid spending. A similar effect occurs with transitional aid to needy families. Grant and contribution receipts to institutions of higher education were only up slightly this year. Capital grants were also up slightly from FY07.

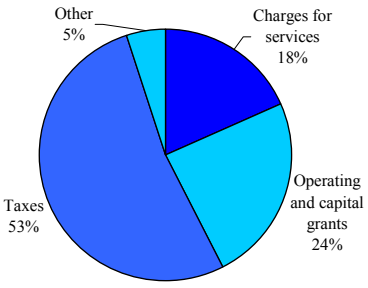
Total charges for services increased by $279 million due to a nearly $250 million increase in Lottery revenues and an increase in the Health and Human Services charges of $63 million. Increases in charges for services also occurred in Public safety and homeland security (up $27 million) and Transportation and public works (up $16 million.) Group health insurance charges for services rose by approximately $57 million. Approximately 47% of the Commonwealth's total revenue came from taxes, while the remainder resulted from programmatic revenues, including charges for services and grants and contributions, the bulk of which is federal aid. Restricted net assets increased from FY07 due to rises in net pension assets and unemployment compensation restricted net assets, which rose by approximately $134 million.

Beyond the aforementioned MSBA related activity, Medicaid spending continued to increase as did other Health and Human Services due to rising medical costs. Other programmatic expenses remained largely unchanged or dropped due to tighter budget controls.

Changes in Net Assets during the Fiscal Years Ended June 30, 2008 and 2007
(in millions of dollars except percentages)

	Governmental Activities		Business - Type Activities		Total Primary Government		Total Primary Government		
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007	June 30, 2008 Distribution	June 30, 2007 Distribution	08 to '07 % Change
Revenues									
Program Revenues:									
Charges for services	$ 7,453	$ 7,156	$ 3,353	$ 3,371	$ 10,806	$ 10,527	24%	25%	3%
Operating grants and contributions	9,272	8,849	711	746	9,983	9,595	22%	23%	4%
Capital grants and contributions	484	487	-	-	484	487	1%	1%	-1%
General Revenues:									
Taxes	21,174	20,001	-	-	21,174	20,001	47%	47%	6%
Other	2,057	1,317	270	317	2,327	1,634	5%	4%	42%
Total Revenues	40,440	37,810	4,334	4,434	44,774	42,244	100%	100%	6%
Expenses									
Medicaid	9,770	9,044	-	-	9,770	9,044	22%	22%	8%
Direct local aid	5,119	5,081	-	-	5,119	5,081	12%	12%	1%
Other health and human services	6,378	5,069	-	-	6,378	5,069	14%	12%	26%
Lottery	3,910	3,689	-	-	3,910	3,689	9%	9%	6%
Higher education	-	-	3,693	3,486	3,693	3,486	8%	9%	6%
Primary and secondary education	2,917	1,866	-	-	2,917	1,866	7%	5%	56%
Unemployment compensation	-	-	1,555	1,430	1,555	1,430	4%	3%	9%
Other	10,733	11,199	-	-	10,733	11,199	25%	27%	-4%
Total Expenses	38,827	35,948	5,248	4,916	44,076	40,864	100%	100%	8%
Excess / (Deficiency) before transfers	1,613	1,862	(914)	(482)	699	1,380			
Transfers	(1,178)	(1,167)	1,178	1,167	-	-			
Change in Net assets (deficits)	435	695	264	685	699	1,379			
Net assets - beginning	(9,597)	(10,297)	4,333	3,648	(5,264)	(6,649)			
Reclassification of permanent fund	-	5	-	-	-	5			
Net assets - ending									
Total Net Assets (deficits)	$ (9,162)	$ (9,597)	$ 4,597	$ 4,333	$ (4,565)	$ (5,264)			

Revenue–Governmental Activities
Fiscal Year Ending June 30, 2008



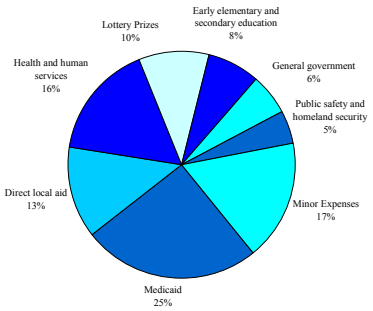
The largest category of tax revenue is income taxes. Of the nearly $21.2 billion in tax revenue within governmental activities, $12.6 billion was from income taxation, $4.1 billion from sales, $1.5 billion from corporations, $667 million from motor fuels and over $2.2 billion from other forms of taxation. The largest operating grants are the federal Medicaid subsidies

The largest capital grants are for transportation, namely grants for highway construction. Finally, Lottery revenues encompass approximately 66% of the Commonwealth's charges for services.

Lottery revenues increased this year by approximately $250 million. The increase in sales is mostly attributed to an increase in Instant Ticket game sales of over $275 million over FY07. In addition to the increase in Instant Ticket game sales, Mega Millions game sales and other game sales were also higher compared to FY07.

Medicaid represents 25% of all the Commonwealth's governmental expenses, exclusive of business – type activities. However, it must be noted that approximately half of the Medicaid expenses are subsidized in the form of federal reimbursements. These subsidies are noted herein in the "operating grants and contributions" segment. The largest expense that is not subsidized by program revenues is direct local aid to the municipalities of the Commonwealth.

Major Expenses–Governmental Activities
Fiscal Year Ending June 30, 2008



To the left is a chart that summarizes governmental expenses of the Commonwealth.

Other than noted above, large expenditures for governmental activities include payments of pensions, education and higher education funding from the General Fund, public safety and other health and human service costs. Pre-K through higher education costs funded not directly from the institutions totaled approximately $2.9 billion, post-employment benefit costs were $1.0 billion, public safety and homeland security was approximately $1.8 billion and other health and human services costs was approximately $6.4 billion.

Business – type activities are functions that equate to activities of a private enterprise. In the Commonwealth the institutions of higher education are deemed to be business type activities because of their lack of separate taxation. Also, unemployment compensation is considered to be a business – type activity.

Business–Type Activities

Unemployment Compensation Fund
Net Assets
Fiscal Year Ending June 30, 2008
(*Amounts in Millions)*

The business-type activities increased the Commonwealth's net assets by over $263 million. This includes an approximate $134 million increase in the Commonwealth's Unemployment Compensation Fund net assets. This is less than FY07 due to lower contributions and higher spending. Net assets of the schools of higher education, increased by over $130 million largely due to increases in net tuition and fee revenue (by nearly 6%.) Miscellaneous revenues, largely ancillary higher education sales and services and federal grants grew by nearly 4%. Overall, revenues of business type activities grew by less than 1%.

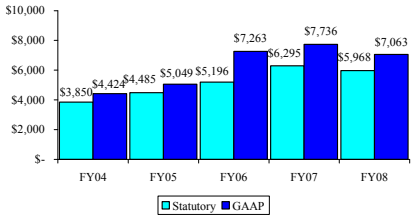
FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

Governmental Funds

As noted earlier, the Commonwealth uses fund accounting to demonstrate inter-period equity and the extent to which current resources are financing the full cost of services that citizens are receiving.

Governmental funds account for the near term inflows, outflows and balances of expendable resources of the Commonwealth's core functions and services. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. In FY08, because of the nature of the significant relationship between the Commonwealth and the MSBA, the MSBA's operations and results are presented as a major fund in the governmental funds, even though it is a legally separate authority. MSBA's activity in FY08 added $743 million in revenues. MSBA's fund balance however subtracted approximately $331 million to the Commonwealth's governmental fund balance at the end of the year, as bonds were sold in FY07 to fund current and future years' activities. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

Governmental Fund Balance
Statutory vs. GAAP
(*Amounts in Millions)*



The Commonwealth develops its budgets on a statutory basis. A comprehensive process is conducted with all departments to convert the statutory basis reporting to generally accepted accounting principles. System generated reports from the state accounting system and data warehouses are combined with reports from each of the Commonwealth departments to record governmental fund perspective, departmental

accruals. Similar reports are generated to show budgetary control, which is maintained at the appropriation level, not at the fund level.

There are six major items which account for almost all the difference between the statutory basis reporting and the governmental fund perspective: accruals for the Medicaid program, compensated absences, claims and judgments and tax revenue accruals.

Governmental Fund Operations - GAAP Basis - Fund Perspective
(Amounts in millions)

	FY08	FY07	FY06	FY05	FY04	FY03
Beginning fund balances …….....	$7,735.9	$7,263.2	$5,048.6	$4,424.4	$2,021.0	$2,467.9
Reclassifications……..……	-	5.0	-	-	-	-
Revenues and other financing sources….....	50,136.8	49,402.2	47,189.9	43,532.6	44,371.7	42,798.0
Expenditures and other financing uses.....	50,810.0	48,934.5	44,975.3	42,908.4	41,968.3	43,244.9
Excess / (deficiency)….....	(673.2)	472.7	2,214.6	624.2	2,403.4	(446.9)
Ending fund balances	$7,062.7	$7,735.9	$7,263.2	$5,048.6	$4,424.4	$2,021.0

The increase in revenues and expenditures in FY08 from FY07 is attributable to an increase of over $1.1 billion in governmental tax revenues and nearly $383 million in federal reimbursements. Total governmental revenues and other financing sources rose approximately 1%. However, governmental expenditures and other uses rose at a much larger pace (about 4%) led by an approximate $926 million increase in Medicaid. Debt service declined slightly from FY07. In addition to the MSBA and the General Fund balances decreased this year – the General Fund dropping largely due to a fund deficit elimination action by the Legislature. This action transferred funds primarily to the Highway Fund.. Lottery revenues and expenditures both increased from FY07. Within the Lottery, revenues slightly outpaced spending by about $30 million. The other minor governmental funds increased in fund balance, largely due to settlements being received from contractors related to the Central Artery Project. Universal Health Care revenues also exceeded spending by more than $193 million for the year, somewhat due to the start up of fair share contributions from employers.

As of the end of FY08, the Commonwealth's governmental funds reported combined ending fund balances of over $7 billion, a decrease of over $673 million from the previous year. However, of the $7 billion, the following amounts are reserved or committed:

Governmental Funds - Designations and Reserves of Fund Balances
(Amounts in millions)

	2008	2007	Change	Percentage Change
Reserved:				
Retirement of indebtedness	$ 925.6	$ 940.8	$ (15.2)	-2%
Central Artery				
Workers Compensation and				
General liability insurance reserve	77.1	100.1	(23.0)	-23%
Amounts due from municipalities	-	51.5	(51.5)	100%
Total reserved balances	**1,002.7**	**1,092.4**	**(89.7)**	**-8%**
Designated:				
General and Special Revenue Funds	2,275.2	2,776.1	(500.9)	-18%
Capital projects funds	102.8	128.0	(25.2)	-20%
Total designated balances	**2,377.9**	**2,904.1**	**(526.2)**	-18%
Undesignated balances *	**3,682.1**	**3,739.4**	**(57.3)**	-2%
Total unreserved and designated balances	**6,060.0**	**6,643.5**	**(583.5)**	-9%
Total fund balances	**$ 7,062.7**	**$ 7,735.9**	**$ (673.2)**	**-9%**

* Beginning balance reclassified for 2007 for permanent fund.

Unreserved and designated balances declined to nearly $584 million, with lower balances in nearly every fund type. Unreserved balances of General and Special revenue funds declined mainly due to spending outpacing revenues. Capital project fund balances showed a decrease entirely due to the timing of bond sales. The Commonwealth sold bonds in advance of spending in FY08 and spent those proceeds during the year.

The amounts reserved for retirement of indebtedness entirely represent escrows for crossover refunding bonds and payments held in escrow for grant anticipation notes to be paid in FY09. The reserve for Central Artery workers' compensation and general liability represents the balance of funds earmarked for claims in an owner controlled insurance program. The reserve will continue to decline as claims are expected to rise during the windup of the project.

During FY08 the general and highway funds were the primary operating funds of the Commonwealth. At the end of the current fiscal year, the fund balance of the general fund was nearly $3.2 billion. Of this amount, over $2 billion represents the Commonwealth's Stabilization Fund. Nearly $136 million was also for continuing appropriations to liquidate contracts and purchase orders from the prior fiscal year in the general fund, sharply lower than FY07's $319 million.

Presented in the governmental funds are the balances and results of operations from the MSBA. In FY08, the MSBA received approximately $638 million of dedicated sales tax revenues.

Proprietary Funds

Proprietary Funds report activities of the Commonwealth that are structured similar to for profit businesses. Proprietary fund financial

statements provide the same type of information as the government – wide financial statements, only in greater detail.

As discussed in the business – type activities above, the business type activities increased the Commonwealth's net assets by over $263 million.

BUDGETARY HIGHLIGHTS

The General Appropriation Act (GAA) authorized approximately $25.4 billion in spending, exclusive of approximately $451 million in FY07 spending authorized to be continued into FY08 as part of a final FY07 supplemental budget.

Supplemental budgets during the year authorized $367.5 million in appropriations. Subsequent to year end, one additional supplemental budget was enacted totaling approximately $46.5 million. The year's supplemental appropriation and transfer activity included:

- $48.4 million for additional snow and ice removal costs from highways, plus an additional $27.1 million for a snow and ice reserve account and another $2.4 million for parkway snow and ice removal.
- $36 million for additional managed health care spending.
- $29.5 million due to increased group insurance commission costs, with approximately $11 million for retiree health care.
- $25 million for home heating assistance for low income families.
- $25 million for a reserve account for county corrections.
- Approximately $22.5 million for private counsel compensation for indigent defendants. Additional amounts were appropriated for court costs and public defenders.
- $20 million in a collective bargaining reserve in addition to direct appropriations for specific union contracts.
- $14.2 million for transitional aid to needy families.
- $13.5 million for transitional aid to families with dependent children.
- $10 million for correctional facilities.

A total of 96 budgetary appropriations were supplemented during the year.

The original budget was passed on July 12, 2007, just after the start of FY08. The Commonwealth has provisions of interim budgets to facilitate operations after the start of a fiscal year, but before a fiscal year budget is passed. Transfers of revenues and expenditures largely related to health care reform, stabilization activity, fund deficit elimination, debt service and taxation resulted in nearly $3.1 billion, net. The required supplementary information that follows the notes to the basic financial statements contains a schedule of revenues, expenditures and changes in fund balances – statutory basis – budget and actual. The statement shows a favorable variance in excess of $1 billion of revenues over budgetary projections, mainly in taxation. Other financing sources exceeded expectations as the general appropriation act does not budget for fringe benefit cost recoveries.

Expenditures were $349 million more than expectations, inclusive of $55 million in Health and human services, $32 million in the Legislature and $27 million in Elementary and secondary education. Other financing uses exceeded budget due to transfers that are typically not part of the budget process, but are statutorily required. Overall, the various budgetary acts projected nearly a $1.4 billion shortfall for FY08. Yet, the Commonwealth ended the year with only a $495 million structural deficit, defined as an excess of spending and other uses over revenues and other sources.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets of the Commonwealth include land, buildings, improvements, equipment, vehicles and infrastructure. The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to approximately $32 billion, net of accumulated depreciation of approximately $11 billion, leaving a net book value of over $21 billion. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, beaches, piers and dams. Of the investment in capital assets noted above though, approximately $7 billion of this amount includes assets that will transfer to the Turnpike Authority and the Massachusetts Port Authority upon completion of the Central Artery / Tunnel project that are in use and depreciating or are right of way.

Absent the $7 billion Artery transfer, the total increase in the Commonwealth's investment in capital assets, net of disposals and changes in accumulated depreciation from 2007 to 2008 was approximately $338 million, largely in construction in process, and buildings. Additional information on the Commonwealth's capital assets can be found in the notes to the financial statements.

The following table details the capital asset activity for the Commonwealth. Similar to previous charts, FY07 amounts for business-type activities include amounts for the foundations established on behalf of the schools of higher education.

Changes in Capital Assets
(net of depreciation)
(amounts in thousands)

	Governmental Activities		Business - type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land, including Central Artery	$ 1,134,678	$ 1,092,159	$ 82,143	$ 80,160	$ 1,216,821	$ 1,172,319
Historical treasures	-	-	854	1,264	854	1,264
Construction in process	2,519,509	2,148,211	489,127	468,303	3,008,636	2,616,514
Construction in process - Central Artery / Tunnel Project	14,065	127,681	-	-	14,065	127,681
Buildings	1,942,065	1,986,068	2,021,911	1,780,459	3,963,976	3,766,527
Machinery and equipment	245,391	258,740	305,393	302,090	550,784	560,830
Infrastructure, including Central Artery	12,764,862	12,936,734	-	-	12,764,862	12,936,734
Library collections	-	-	106,466	107,080	106,466	107,080
Total	**$ 18,620,570**	**$ 18,549,593**	**$ 3,005,894**	**$ 2,739,356**	**$ 21,626,464**	**$ 21,288,949**

Debt Administration

The Commonwealth issues short-term and long-term debt. Debt that is general obligation in nature is backed by the full faith and credit of the Commonwealth and paid from governmental funds. Additionally, short-term notes are issued and redeemed annually.

Exclusive of MSBA, the Commonwealth issued approximately $1 billion in new debt this year. 25% of the Commonwealth's general obligation debt has been issued as variable rate bonds as of June 30, 2008. Included in this variable debt were approximately $566 million in auction rate securities (about 4% of all general obligation debt) as of June 30, 2008. Beginning in February 2008 several auctions of the Commonwealth's auction rate bonds began to fail, meaning there were not enough bids from investors to purchase securities being offered for sale by existing holders. These auction failures have been systemic throughout the municipal bond market, caused primarily by widespread downgrades and negative rating outlooks of a number of municipal bond issuers other than the Commonwealth. The failed and unsubscribed auctions have resulted in higher interest costs, but as of June 30, 2008, none of these costs have exceeded their budgeted debt service amount of 5%. Subsequent to year end, the Commonwealth refunded its Series 2007 D-1 and D-2 auction rate bonds and replaced them with fixed rate bonds.

Approximately $787 million in bond sales were either for general government purposes or unallocated as of year end and assumed to be for general purposes including for construction and equipment purchases. The remaining new issues were for highway and other infrastructure construction (approximately $466 million) or for strictly municipal purposes (approximately $29 million.)

Below is a table which details the Commonwealth's debt by type for the fiscal year compared to the prior fiscal year, excluding premiums and discounts.

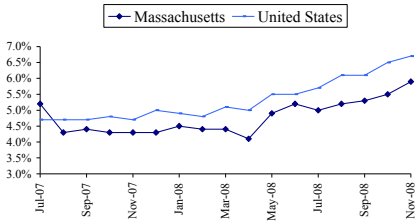
Changes in Long - Term Debt Obligations
(net of unamortized premiums, bond issuance costs, deferred losses on refundings and discounts)
(amounts in thousands)

	Governmental Activities		Business - type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	$ 16,086,470	$ 15,822,591	$ -	$ -	$ 16,086,470	$ 15,822,591
Special obligation bonds (excluding GANs	1,112,590	1,248,750	-	-	1,112,590	1,248,750
Revenue obligation bonds	-	-	2,017,330	1,624,617	2,017,330	1,624,617
Grant anticipation notes	1,535,380	1,665,620	-	-	1,535,380	1,665,620
Subtotal	18,734,440	18,736,961	2,017,330	1,624,617	20,751,770	20,361,578
Massachusetts School Building Authority	3,899,605	3,950,750	-	-	3,899,605	3,950,750
Total	**$ 22,634,045**	**$ 22,687,711**	**$ 2,017,330**	**$ 1,624,617**	**$ 24,651,375**	**$ 24,312,328**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In 2008, as problems in the subprime mortgage credit markets developed into a nationwide correction in the housing market and a banking credit "crunch" Massachusetts' economy somewhat outperformed the nation's economy as a whole. Personal income rose

Monthly Unemployment Rate
July 2007 – November 2008



by nearly 9% for the calendar year of 2007. As of June 2008, unemployment was less than the national average. However, since June, unemployment nationwide has risen sharply as the credit crisis has taken hold. The rate for the Commonwealth rose from 5.2% in July of 2007, dipping to as low as 4.1% in April of 2008, but rising back to 5.9% as of November 2008. Nationwide, the rate has almost continuously rose in the same time span from 4.7% in July 2007 to 6.7% in November 2008. The Commonwealth is doing better than other states such as Michigan and Rhode Island, but there are many uncertain signs. The population of the Commonwealth continues to only slightly grow, showing only two tenths of a percent increase, despite being the home to many world-renowned institutions of higher education, both public and private, keeping the economy relatively stable and an incubator for new ideas and growth. Population growth nationwide averages approximately 1% per year.

Even so, the Commonwealth, with an international reputation for medical, cultural, historical and educational institutions remains the economic and educational hub of New England. The Commonwealth's economy remains diversified, but its strongest component is its knowledge – based technology and service industries. The Commonwealth is home to 17 S&P 500 companies, among them seven *Fortune 500* headquarters. The 2008 State New Economy Index, published by the Information Technology and Innovation Foundation which benchmarks the knowledge based economy, shows that Massachusetts continues to rank first in the nation in a range of results from IT professional and managerial jobs, workforce education, migration of US knowledge workers, fastest growing firms, health information technology, high tech jobs and scientists and engineers.

Massachusetts' infrastructure provides strong support for this knowledge-based economy. There are over 120 colleges and universities located in Massachusetts, and the 2000 US Census, updated in the 2007 American Community Survey, estimated that 37.9% of the residents over age 25 have earned bachelor's degrees, compared to an estimate of 27.5% for the United States as a whole. In the same survey, over 88% of residents over age 25 at least have a high school diploma or general education equivalent. In primary education, the National Assessment of Education Progress ranks Massachusetts first in 4th and 8th grade mathematics and reading, second in writing and fourth and sixth in science in grades 4 and 8, respectively. This shows that Massachusetts school children are consistently among the best educated in the nation.

Inflation continued to rise though in the past year. The Boston consumer price index rose over 6.3% from July 2007 to July 2008, largely on a nearly 37% spike in fuel costs. However, as the economic crisis has set in, prices have receded to an overall 4.7% rise when extended to September 2008 as fuel prices dropped by nearly 50% in the space of two months. During the period of July 2007 to September 2008, rising was education at 10.5%, transportation at 9.4%, food at 6.2% and medical care and recreation at less than inflation. Despite the nationwide drop in housing prices, shelter prices in Massachusetts are nearly flat over the period, dropping by only 0.1%.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Commonwealth's finances for all of the Commonwealth's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed via email to comptroller.info@state.ma.us or mail to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, Massachusetts, 02108. You may also download this report at: http://www.mass.gov/osc/reports/reports.htm.

Basic Financial Statements

Government-wide Financial Statements
Statement of Net Assets
Statement of Activities

St. Peter's Fiesta

The St. Peter's Fiesta is an annual celebration in the fishing community of Gloucester, MA taking place on the weekend closest to the Feast Day of St. Peter, the patron saint of fishermen.

St. Peter's Fiesta consists of three days of events. The entire Italian-American section of Gloucester is decorated with flags, bunting, colored lights and streamers. An enormous altar and double bandstand several stories high form the focal point of the decorations. The life-sized statue of St. Peter is centered on this altar, lavishly decorated with hundreds of flowers. From the bandstand two concert bands alternate in entertaining every evening of the Fiesta.

An open air Mass is celebrated at the Altar at St. Peter's Square, followed by a procession composed of several bands and floats, hundreds of men and women participants, and the statue of St. Peter carried on the shoulders of eight fishermen.

Photography courtesy of Mary Muckevhoupt, Gloucester Daily Times

Later in the afternoon the crowds witness the blessing of the Italian-American fishing fleet. The fleet of almost one hundred fishing vessels, all gaily decorated with signal flags, presents a most impressive panorama. After the Bishop blesses the fleet, the vessels' fog horns are blown. These blasts can be heard all over Cape Ann.

Among the sporting events in the Greasy Pole where brave souls run across a grease covered pole trying to capture a flag. Seine boat races are also held where twelve man crews prove their strength and stamina by rowing against each other in old seine boats in a grueling mile long race.

Text: www.stpetersfiesta.org
Photography courtesy of Judy Cox

Statement of Net Assets

June 30, 2008

(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business Type Activities	Government Wide Total	Component Units
ASSETS				
Current assets:				
Cash and cash equivalents	$ 5,174,161	$ 373,124	$ 5,547,285	$ 480,367
Cash with fiscal agent	1,036,861	-	1,036,861	-
Short-term investments	-	309,178	309,178	1,370,730
Receivables, net of allowance for uncollectibles:				
Taxes	2,452,470	-	2,452,470	-
Federal grants and reimbursements receivable	1,292,862	30,689	1,323,551	66,198
Loans	1,429	40,930	42,359	265,217
Other receivables	204,173	565,405	769,579	181,517
Due from cities and towns	56,074	-	56,074	28,480
Due from component units	2,390	-	2,390	-
Due from primary government	-	-	-	223,262
Inventory	-	-	-	64,374
Other current assets	29,368	51,885	81,253	134,502
Total current assets	**10,249,789**	**1,371,211**	**11,621,000**	**2,814,647**
Noncurrent assets:				
Cash and cash equivalents - restricted	-	679,076	679,076	23,642
Long - term investments	-	911,990	911,990	1,655,577
Investments, restricted investments and annuity contracts	2,607,454	-	2,607,454	619,512
Accounts receivable, net	640,248	36,911	677,159	15,679
Loans receivable, net	66,300	15,929	82,229	3,444,102
Due from primary government	-	-	-	8,519
Non-depreciable capital assets	3,668,252	572,124	4,240,376	1,290,640
Depreciable capital assets, net	14,952,318	2,433,770	17,386,088	14,786,762
State retirement system net pension asset	306,711	-	306,711	-
Other noncurrent assets	13,406	39,537	52,943	-
Other noncurrent assets - restricted	-	1,412,712	1,412,712	716,736
Total noncurrent assets	**22,254,689**	**6,102,049**	**28,356,738**	**22,561,169**
Total assets	**32,504,478**	**7,473,260**	**39,977,738**	**25,375,816**
LIABILITIES				
Current liabilities:				
Accounts payable and other liabilities	2,564,021	259,544	2,823,565	445,014
Accrued payroll	111,521	121,831	233,352	56,634
Compensated absences	296,397	116,609	413,006	22,972
Accrued interest payable	300,267	10,295	310,562	249,513
Tax refunds and abatements payable	776,694	16,446	793,140	-
Due to component units	223,262	-	223,262	-
Due to primary government	-	-	-	2,390
Due to federal government	104,934	-	104,934	-
Claims and judgments	40,000	-	40,000	-
Deferred inflow of resources	-	82,335	82,335	44,103
Deposits and unearned revenue	-	35,703	35,703	-
School construction grants payable	891,034	-	891,034	-
Capital leases	37,321	13,925	51,246	109,206
Massachusetts School Building Authority notes payable	455,000	-	455,000	-
Massachusetts School Building Authority bonds	78,797	-	78,797	-
Bonds payable and unamortized premiums	1,238,048	61,788	1,299,836	595,713
Total current liabilities	**7,117,296**	**718,476**	**7,835,772**	**1,525,545**

(continued)

Statement of Net Assets

June 30, 2008

(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business Type Activities	Government Wide Total	Component Units
Noncurrent liabilities:				
Compensated absences	172,548	52,511	225,059	8,608
Accrued interest payable	-	-	-	80,287
Due to component units	8,519	-	8,519	-
Due to federal government - grants	-	9,113	9,113	-
Claims and judgments	28,200	-	28,200	-
Deferred inflow of resources	93,573	17,330	110,903	198,822
Prizes payable	1,462,407	-	1,462,407	-
Capital leases	346,535	53,706	400,241	565,635
Bonds payable and unamortized premiums	17,619,727	1,964,753	19,584,480	11,138,799
Unamortized deferred loss on refunding	(93,573)	-	(93,573)	-
Massachusetts School Building Authority bonds	4,047,912	-	4,047,912	-
Due to component units - Central Artery / Tunnel Project	6,866,456	-	6,866,456	-
Due to non-component units - Central Artery / Tunnel Project	365,000	-	365,000	-
School construction grants payable	2,880,387	-	2,880,387	-
Contract assistance payable	70,426	-	70,426	-
Teachers' retirement system net pension obligation	203,848	-	203,848	-
Net post - employment benefits obligations	155,705	-	155,705	115,695
Other noncurrent liabilities	320,962	60,800	381,762	224,729
Total noncurrent liabilities	**34,548,632**	**2,158,213**	**36,706,845**	**12,332,575**
Total liabilities	**41,665,928**	**2,876,689**	**44,542,617**	**13,858,120**
NET ASSETS				
Invested in capital assets, net of related debt	446,666	1,562,002	2,008,668	9,159,535
Restricted for:				
Capital projects	-	-	-	193
Unemployment benefits	-	1,748,527	1,748,527	-
Retirement of indebtedness	925,611	-	925,611	-
Central Artery workers' compensation and general liability	48,864	-	48,864	-
Other purposes	-	641,679	641,679	2,206,472
Funds held as Permanent Investments:				
Nonexpendable purpose	5,000	-	5,000	-
Unrestricted (deficit)	(10,587,591)	644,363	(9,943,228)	151,496
Total net assets (deficit)	**$ (9,161,450)**	**$ 4,596,571**	**$ (4,564,879)**	**$ 11,517,696**

The notes to the financial statements are an integral part of this statement. *(concluded)*

Statement of Activities

Fiscal Year Ended June 30, 2008

(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
Primary government:								
Governmental Activities:								
General government	$ 2,213,925	$ 414,614	$ 89,208	$ -	$ (1,710,103)	$ -	$ (1,710,103)	$ -
Judiciary	858,272	124,542	501	-	(733,228)	-	(733,228)	-
Direct local aid	5,118,858	-	-	-	(5,118,858)	-	(5,118,858)	-
Medicaid	9,769,893	176,471	4,765,396	-	(4,828,026)	-	(4,828,026)	-
Group health insurance	828,297	209,008	-	-	(619,289)	-	(619,289)	-
Interest (unallocated)	1,152,162	-	-	-	(1,152,162)	-	(1,152,162)	-
Post employment benefits	1,028,058	-	-	-	(1,028,058)	-	(1,028,058)	-
Energy and environmental affairs	483,421	162,639	47,179	-	(273,603)	-	(273,603)	-
Housing and economic development	885,034	185,019	449,658	-	(250,357)	-	(250,357)	-
Health and human services	6,378,193	601,483	2,564,384	19,912	(3,192,414)	-	(3,192,414)	-
Transportation and public works	1,151,427	477,420	11,094	464,260	(198,652)	-	(198,652)	-
Early elementary and secondary education	2,916,850	10,766	1,059,182	-	(1,846,902)	-	(1,846,902)	-
Public safety and homeland security	1,821,240	153,641	135,295	-	(1,532,305)	-	(1,532,305)	-
Labor and workforce development	311,371	31,758	150,039	-	(129,574)	-	(129,574)	-
Lottery	3,910,362	4,905,509	-	-	995,147	-	995,147	-
Total governmental activities	**38,827,362**	**7,452,873**	**9,271,936**	**484,172**	**(21,618,382)**	**-**	**(21,618,382)**	**-**
Business-Type Activities:								
Unemployment Compensation	1,554,885	1,587,543	38,891	-		71,549	71,549	-
Higher Education:								
University of Massachusetts	2,274,312	1,160,513	492,171	-		(621,628)	(621,628)	-
State Colleges	733,842	400,369	39,010	-		(294,463)	(294,463)	-
Community Colleges	685,235	204,190	140,902	-		(340,143)	(340,143)	-
Total business-type activities	**5,248,274**	**3,352,615**	**710,974**	**-**	**-**	**(1,184,685)**	**(1,184,685)**	**-**
Total primary government	**$ 44,075,636**	**$ 10,805,488**	**$ 9,982,910**	**$ 484,172**	**(21,618,382)**	**(1,184,685)**	**(22,803,067)**	**-**
Component Units:								
Massachusetts Bay Transportation Authority	$ 1,810,894	$ 489,438	$ 898,895	$ 293,348				(129,213)
Massachusetts Turnpike Authority	716,543	488,599	28,463	-				(199,481)
Massachusetts Water Pollution Abatement Trust	186,632	6,080	-	62,782				(117,770)
Other nonmajor component units	1,266,357	1,036,185	145,654	98,809				14,291
Total component units	**$ 3,980,426**	**$ 2,020,302**	**$ 1,073,012**	**$ 454,939**	-	-	-	**(432,173)**

(continued)

General revenues:	Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
Taxes:				
Income	12,649,149	-	12,649,149	-
Sales taxes	4,094,461	-	4,094,461	-
Corporate taxes	1,523,062	-	1,523,062	-
Motor and special fuel taxes	666,897	-	666,897	-
Other taxes	2,240,861	-	2,240,861	-
Miscellaneous:				
Investment earnings	227,214	70,441	297,655	281,495
Tobacco settlement	288,490	-	288,490	-
Contribution from municipalities	45,925	-	45,925	-
Other revenue	1,495,681	199,704	1,695,385	21,749
Special items - capital contribution to component unit	-	-	-	4,360,885
Transfers	(1,178,030)	1,178,030	-	-
Total general revenues and transfers	**22,053,709**	**1,448,175**	**23,501,884**	**4,664,129**
Change in net assets	**435,327**	**263,490**	**698,817**	**4,231,956**
Net assets - beginning	(9,596,777)	4,333,081	(5,263,696)	7,285,740
Net assets - ending	**$ (9,161,450)**	**$ 4,596,571**	**$ (4,564,879)**	**$ 11,517,696**

The notes to the financial statements are an integral part of this statement. *(concluded)*

Lantern Festival

Forest Hills is one of America's most lovely rural garden cemeteries, established in 1848. It is also a unique Boston cultural resource and historic site. Its 250 acres offer the public a magnificent arboretum, open air museum containing sculptures and modern works of art.

For the last 10 years, they have held a Lantern Festival. In this breathtaking ceremony of remembrance, visitors to this lush, Victorian landscape make paper lanterns and set them afloat on the peaceful waters of a small lake. This ritual is based on the traditional Japanese Bon Festival, a time when a door opens to the world of the ancestors, allowing us to send messages to the other side. People enjoy picnics on the grass and a multi-cultural program of music and dance. They decorate their lanterns with calligraphy and notes to those who have died. At sunset, a candle is lit in each lantern, and the glimmering lanterns are set afloat. Drifting and flickering with the wind, the lanterns symbolize the soul's journey when life ends.

This year performers included students from Showa Institute and Chu Ling Dance Academy.

Photography & Text courtesy of the Forest Hills Educational Trust

Governmental Fund Financial Statements

Japanese Festival

The Peabody Essex Museum is America's oldest continuously operating museum founded in 1799, sixteen years after the establishment of the nation. The museum's founders were among America's first global entrepreneurs, traveling the world in search of trade. The collections consist of over 845,000 works of art and culture and they are exceptional for their provenance, age, quality, and significance.

They host a number of cultural events throughout the year, including a Japanese Festival. This year the Tamagawa performers introduced audiences to a vast repertoire featuring traditional Japanese dance and taiko drumming from several regions of Japan.

Many of the dances represent themes such as harvest celebrations, paying respect to the gods and honoring ancestors. Several styles of dance are represented, including zashiki-mai, originally performed by geishas at a banquet, as well as dance typically seen in Kabuki Theater.

Obon dancing is enjoyed throughout Japan in August, when family members gather to honor their ancestors. The audience was encouraged to learn the dance moves of Obon dancing with middle school students from Ota, Salem's sister city, in Tokyo, Japan.

Photography & Text courtesy of Peabody Essex Museum

Balance Sheet
Governmental Funds
June 30, 2008
(Amounts in thousands)

	General	Highway	Lotteries	Massachuestts School Building Authority	Other Governmental Funds	Total
ASSETS						
Cash and short-term investments	$ 1,802,240	$ 18,230	$ 10,730	$ 1,327,278	$ 2,015,683	$ 5,174,161
Cash with fiscal agent	-	15,619	-	-	1,021,242	1,036,861
Investments and restricted investments	388,077	-	-	716,427	40,543	1,145,047
Receivables, net of allowance for uncollectibles:						
Taxes	2,791,650	45,155	-	43,300	70,758	2,950,863
Due from federal government	963,496	-	-	-	374,427	1,337,923
Loan receivable	-	-	-	67,729	-	67,729
Other receivables	78,362	1,131	4,039	4,559	212,876	300,967
Due from cities and towns	56,074	-	-	-	-	56,074
Due from other funds	447,999	-	-	-	65,060	513,059
Due from component units	2,390	-	-	-	-	2,390
Total assets	**$ 6,530,288**	**$ 80,135**	**$ 14,769**	**$ 2,159,293**	**$ 3,800,589**	**$ 12,585,075**
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 1,648,956	$ 9,909	$ 39,928	$ 93,356	$ 739,820	$ 2,531,969
Accrued payroll	92,732	7,736	-	-	11,053	111,521
Tax refunds and abatements payable	776,694	-	-	-	-	776,694
Due to other funds	-	-	-	-	501,156	501,156
Due to component units	96,965	14,114	-	-	112,183	223,262
Due to federal government	104,934	-	-	-	-	104,934
Deferred inflow of resources	611,729	-	5,237	-	23,282	640,248
Claims and judgments	27,000	-	-	-	13,000	40,000
Bonds, notes payable and certificates of participation	-	-	-	455,000	-	455,000
School construction grants payable	-	-	-	36,450	-	36,450
Other accrued liabilities	-	-	-	-	101,178	101,178
Total liabilities	**3,359,010**	**31,759**	**45,165**	**584,806**	**1,501,672**	**5,522,412**
Fund balances (deficits):						
Reserved for:						
Retirement of indebtedness	-	15,619	-	-	909,992	925,611
Central artery workers'						
Compensation and general liability	-	-	-	-	77,064	77,064
Unreserved:						
Designated for reappropriated accounts, reported in:						
General	2,255,081	-	-	-	-	2,255,081
Special revenue	-	585	-	-	19,511	20,096
Capital projects	-	-	-	-	102,760	102,760
Undesignated:						
General	916,197	-	-	-	-	916,197
Special revenue	-	32,172	(30,396)	1,574,487	1,647,921	3,224,185
Capital projects	-	-	-	-	(463,331)	(463,331)
Permanent trust funds	-	-	-	-	5,000	5,000
Fund balances (deficits)	**3,171,278**	**48,376**	**(30,396)**	**1,574,487**	**2,298,917**	**7,062,663**
Total liabilities and fund balances	**$ 6,530,288**	**$ 80,135**	**$ 14,769**	**$ 2,159,293**	**$ 3,800,589**	**$ 12,585,075**

The notes to the financial statements are an integral part of this statement.

Reconciliation of Fund Balances to the Statement of Net Assets

June 30, 2008
(Amounts in thousands)

Total fund balances - governmental funds		**$ 7,062,663**
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Capital assets not being depreciated	$ 3,668,252	
Capital assets being depreciated, net	14,952,318	
Capital assets, net of accumulated depreciation		18,620,570
Amounts presented in the statement of net assets, but not in fund balances due to differences in revenue recognition under different bases of accounting		640,248
Massachusetts School Building Authority assets		29,368
Lottery annuity contracts		1,462,407
Elimination of due from / due to activity between state departments within primary government and business-type activities		(11,903)
Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities include:		
Pension over / (underfunding) State Retirement Systems net pension obligation	102,863	
Net post - employment benefits obligations	(155,705)	
Commonwealth bonded debt	(18,734,440)	
Accrued interest on bonds	(300,267)	
Unamortized bond premiums, deferred losses and bond issuace costs	(123,335)	
Massachusetts School Building Authority bonded debt	(4,126,709)	
Massachusetts School Building Authority grants to municipalities	(3,734,971)	
Lottery prizes payable	(1,462,407)	
Contract assistance payable	(70,426)	
Amounts to be transferred to component units and related organizations in conjunction with the Central Artery / Tunnel Project	(7,231,456)	
Capital leases	(383,856)	
Claims and judgments	(28,200)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims	(715,894)	
Long - term liabilities (including current portions)		(36,964,803)
Total net assets - governmental activities		**$ (9,161,450)**

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	General	Highway	Lotteries	Massachuestts School Building Authority	Other Governmental Funds	Total
REVENUES						
Taxes	$ 18,963,931	$ 568,662	$ 1,006	$ 637,620	$ 948,967	$ 21,120,186
Assessments	292,233	13,628	-	-	551,841	857,702
Federal grants and reimbursements	6,495,773	750	-	-	3,221,536	9,718,059
Departmental	1,362,865	405,959	4,905,454	-	243,762	6,918,040
Miscellaneous	405,407	1,184	9,164	105,263	1,399,471	1,920,488
Total revenues	**27,520,209**	**990,183**	**4,915,624**	**742,883**	**6,365,576**	**40,534,475**
EXPENDITURES						
Current:						
Legislature	58,090	-	-	-	-	58,090
Judiciary	793,723	-	-	-	2,468	796,191
Inspector General	3,136	-	-	-	61	3,197
Governor and Lieutenant Governor	8,757	-	-	-	-	8,757
Secretary of the Commonwealth	43,981	-	-	-	6,740	50,721
Treasurer and Receiver-General	119,457	919	3,902,516	61,248	1,005,304	5,089,444
Auditor of the Commonwealth	18,999	-	-	-	70	19,069
Attorney General	31,916	480	-	-	12,878	45,274
Ethics Commission	1,629	-	-	-	-	1,629
District Attorney	98,046	3,951	-	-	8,666	110,663
Office of Campaign and Political Finance	1,170	-	-	-	-	1,170
Sheriff's Departments	291,988	472	-	-	2,759	295,219
Disabled Persons Protection Commission	2,017	-	-	-	47	2,064
Board of Library Commissioners	32,888	-	-	-	3,278	36,166
Comptroller	11,903	7	-	-	1,792	13,702
Administration and finance	1,343,813	5,836	-	-	178,614	1,528,263
Energy and environmental affairs	216,702	-	-	-	95,184	311,886
Health and human services	4,873,252	-	-	-	1,549,671	6,422,923
Transportation and public works	181,835	89,785	-	-	75,775	347,395
Executive Office of Education:						
Early education and care	549,880	-	-	-	9,796	559,676
Department of elementary and secondary education	1,393,207	-	-	-	811,373	2,204,580
Higher education	116,210	-	-	-	14,503	130,713
Massachusetts school building assistance	-	-	-	765,434	-	765,434
Public safety and homeland security	1,024,166	245,690	-	-	137,457	1,407,313
Housing and economic development	210,328	59	-	-	500,021	710,408
Labor and workforce development	59,515	-	-	-	248,450	307,965
Medicaid	8,375,942	-	-	-	1,393,951	9,769,893
Pension	367,524	-	-	-	-	367,524
Direct local aid	5,098,642	-	-	-	9,848	5,108,490
Capital outlay:						
Local aid	-	-	-	-	10,368	10,368
Capital acquisition and construction	-	-	-	-	1,698,328	1,698,328
Debt service	-	-	-	247,464	2,238,939	2,486,403
Total expenditures	**25,328,716**	**347,199**	**3,902,516**	**1,074,146**	**10,016,339**	**40,668,916**
Excess (deficiency) of revenues over (under) expenditures	**2,191,493**	**642,984**	**1,013,108**	**(331,263)**	**(3,650,764)**	**(134,441)**
OTHER FINANCING SOURCES						
Bonds premium	-	-	-	-	25,121	25,121
Proceeds of general obligation bonds	-	-	-	-	1,280,824	1,280,824
Proceeds of capital leases	16,625	-	-	-	-	16,625
Transfers in for debt service	-	-	-	-	2,119,558	2,119,558
Operating transfers in	2,121,217	1,575,198	200,019	-	2,263,793	6,160,227
Total other financing sources	**2,137,842**	**1,575,198**	**200,019**	**-**	**5,689,296**	**9,602,355**
OTHER FINANCING USES						
Operating transfers out	3,744,494	110,184	1,127,991	-	1,731,342	6,714,011
Transfers of appropriations	1,246,462	-	-	-	-	1,246,462
Transfers of bond proceeds	-	-	-	-	61,079	61,079
Transfers out for debt service	1,066,255	801,653	-	-	251,650	2,119,558
Total other financing uses	**6,057,211**	**911,837**	**1,127,991**	**-**	**2,044,071**	**10,141,110**
Total other financing sources and uses	**(3,919,369)**	**663,361**	**(927,972)**	**-**	**3,645,225**	**(538,755)**
Net change in fund balances	**(1,727,876)**	**1,306,345**	**85,136**	**(331,263)**	**(5,539)**	**(673,196)**
Fund balances (deficits) at beginning of year	4,899,154	(1,257,969)	(115,532)	1,905,750	2,304,456	7,735,859
Fund balances (deficits) at end of year	**$ 3,171,278**	**$ 48,376**	**$ (30,396)**	**$ 1,574,487**	**$ 2,298,917**	**$ 7,062,663**

The notes to the financial statements are an integral part of this statement.

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the fiscal year ended June 30, 2008
(Amounts in thousands)

Net change in fund balances - total governmental funds	**$**	**(673,196)**
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents capital outlays including increases to construction in process, but excluding reductions and dispositions		885,084
Current year depreciation expense		(682,386)
Amounts presented in the statement of activities, but not in the change in fund fund balances due to difference in revenue and expense recognition under different bases of accounting		100,544
Elimination of due from / due to activity between state departments within government and business-type activities		(1,144)
The issuance of long - term debt provides current financial resources to governmental funds, while the repayment of principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized as part of the statement of activities. This amount is the net effect of these differences in the treatment of long - term debt and related items		2,521
Increase in capital leases		(4,918)
Massachusetts School Building Authority		692,348
Net underfunding of post employment benefit obligations		22,761
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued interest, lottery prizes, claims and benefits that are reported in the statement of activities, but not in funds		93,713
Change in net assets of governmental activities	**$**	**435,327**

The notes to the financial statements are an integral part of this statement.

Photograph © Andrew Page Photography
www.andrewpagephoto.com

Southeast Asian Water Festival

The Southeast Asian Water Festival, Inc. is dedicated to the preservation, protection and sharing of the cultural heritages of the Southeast Asian Americans. Every 3rd Saturday in August, more than 60,000 people from around the country and the world come to Lowell to celebrate water as it is celebrated in Southeast Asia. They come for the blessings, food, crafts, performances and boat races.

Buddhist scripture explains that the Water Festival is held to thank the spirit of the water, to pray for evil spirits to go away, and to honor the Dragon King who dwells in the water. The Water Festival is a time to be thankful for the rivers, lakes and ponds that villagers depend upon for their livelihood and economic development.

On the morning of the races, there is a parade along the Merrimack River near the Sampas pavilion, blessing dances and a blessing of the boats by monks.

At the festival, traditional artisans, clowns, musicians, dancers and singers perform as well as more contemporary performers - little girls' hip-hop and young men rap in Khmer. The popular and mostly traditional acrobatic Monkey Dancers do some break dancing to modern Southeast Asian pop sounds.

Photography courtesy of Andrew Page Photography
Text courtesy of www.lowellwaterfestival.org

Proprietary Fund Financial Statements

August Moon

August Moon is the second biggest holiday in China after the Lunar New Year and is also celebrated in other Asian countries such as Vietnam, Korea, Malaysia, and Singapore. Traditionally, it is celebrated on the fifteenth day of the eighth lunar month in observance of the bountiful autumn harvest. The festival helps visitors learn about Asian cultures and gives many countries (Asian and non-Asian) a chance to share their culture with the community. Festival attractions include a sampling of traditional moon cakes and other traditional Asian foods and cultural performances.

Traditionally, it is celebrated on the fifteenth day of the eighth lunar month in observance of the bountiful autumn harvest. Although old rituals are no longer followed, families continue to gather for a day to relax and eat moon cakes

Quincy, MA is becoming known as Boston's second China-town. In the city of Quincy, there was a 140% growth in persons identifying themselves as Asian between 1990 and 2000, according to the U.S. Census bureau of 2000. This year marks their 21st August Moon Festival.

Photography courtesy of Shirley Guan and Jim Guan

Statement of Net Assets

Proprietary Funds

June 30, 2008

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 40,464	$ 250,259	$ 82,401	$ 373,124
Short-term investments	-	212,483	51,604	45,091	309,178
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable	-	27,565	736	2,388	30,689
Loans	-	39,430	1,341	159	40,930
Other receivables	386,766	132,528	13,088	23,810	556,192
Contribution receivables, net	-	8,295	918	-	9,213
Other current assets	-	41,435	6,205	4,245	51,885
Total current assets	**386,766**	**502,200**	**324,151**	**158,094**	**1,371,211**
Noncurrent assets:					
Cash and cash equivalents - restricted	-	653,235	22,464	3,377	679,076
Long-term investments	-	712,760	132,312	66,918	911,990
Accounts receivable, net	-	34,749	1,014	1,148	36,911
Loans receivable, net	-	-	14,589	1,340	15,929
Non-depreciable capital assets	-	456,111	77,603	38,410	572,124
Depreciable capital assets, net	-	1,463,638	694,379	275,753	2,433,770
Other noncurrent assets	-	20,290	18,738	509	39,537
Other noncurrent assets - restricted	1,412,712	-	-	-	1,412,712
Total noncurrent assets	**1,412,712**	**3,340,783**	**961,099**	**387,455**	**6,102,049**
Total assets	**1,799,478**	**3,842,983**	**1,285,250**	**545,549**	**7,473,260**
LIABILITIES					
Current liabilities:					
Accounts payable and other liabilities	34,505	161,602	35,985	27,452	259,544
Accrued payroll	-	67,960	28,225	25,646	121,831
Compensated absences	-	67,375	22,858	26,376	116,609
Accrued interest payable	-	9,912	88	295	10,295
Tax refunds and abatements payable	16,446	-	-	-	16,446
Deferred inflow of resources	-	70,259	11,674	402	82,335
Student deposits and unearned revenues	-	8,552	11,677	15,474	35,703
Capital leases	-	8,251	2,953	2,721	13,925
Bonds, notes payable and other obligations	-	45,915	13,533	2,340	61,788
Total current liabilities	**50,951**	**439,826**	**126,993**	**100,706**	**718,476**
Noncurrent liabilities:					
Compensated absences	-	21,707	15,006	15,798	52,511
Due to federal government - grants	-	-	7,351	1,762	9,113
Deferred inflow of resources	-	13,556	3,668	106	17,330
Capital leases	-	34,177	13,824	5,705	53,706
Bonds, notes payable and other obligations	-	1,339,110	584,352	41,291	1,964,753
Other noncurrent liabilities	-	43,230	13,960	3,610	60,800
Total noncurrent liabilities	**-**	**1,451,780**	**638,161**	**68,272**	**2,158,213**
Total liabilities	**50,951**	**1,891,606**	**765,154**	**168,978**	**2,876,689**
NET ASSETS					
Invested in capital assets, net of related debt	-	1,028,024	264,166	269,812	1,562,002
Restricted for:					
Unemployment benefits	1,748,527	-	-	-	1,748,527
Other purposes	-	467,546	116,963	57,170	641,679
Unrestricted	-	455,807	138,967	49,589	644,363
Total net assets	**$ 1,748,527**	**$ 1,951,377**	**$ 520,096**	**$ 376,571**	**$ 4,596,571**

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
Operating revenues:					
Unemployment compensation contribution	$ 1,523,435	$ -	$ -	$ -	$ 1,523,435
Net tuition and fees	-	458,439	230,263	160,258	848,960
Federal grants and reimbursements	38,891	492,171	39,010	140,902	710,974
Auxiliary enterprises	-	231,306	75,069	15,377	321,752
Sales & services	-	412,003	74,732	4,990	491,725
Miscellaneous	64,108	58,765	20,305	23,565	166,743
Total operating revenues	**1,626,434**	**1,652,684**	**439,379**	**345,092**	**4,063,589**
Operating expenses:					
Unemployment compensation	1,554,885	-	-	-	1,554,885
Instruction	-	548,850	239,793	254,761	1,043,404
Research	-	342,109	37	130	342,276
Academic support	-	130,293	69,989	84,415	284,697
Student services	-	91,157	70,679	94,751	256,587
Scholarships and fellowships	-	33,847	9,397	40,084	83,328
Public service	-	92,562	5,536	8,260	106,358
Operation and maintenance of plant	-	178,940	68,553	71,906	319,399
Institutional support	-	179,047	86,450	81,971	347,468
Other operating expenses	-	317,896	16,320	6,661	340,877
Depreciation	-	125,780	41,645	23,340	190,765
Auxiliary operations	-	182,379	99,732	16,965	299,076
Total operating expenses	**1,554,885**	**2,222,860**	**708,131**	**683,244**	**5,169,120**
Operating income (loss)	**71,549**	**(570,176)**	**(268,752)**	**(338,152)**	**(1,105,531)**
Nonoperating revenues (expenses):					
Other revenues	-	141,691	32,788	25,225	199,704
Other expenses	-	(51,452)	(25,711)	(1,991)	(79,154)
Investment income (loss)	62,559	(3,695)	9,609	1,968	70,441
Total nonoperating revenues (expenses)	**62,559**	**86,544**	**16,686**	**25,202**	**190,991**
Income (loss) before contributions and transfers	**134,108**	**(483,632)**	**(252,066)**	**(312,950)**	**(914,540)**
Transfers in	-	583,776	275,422	318,832	1,178,030
Change in net assets	**134,108**	**100,144**	**23,356**	**5,882**	**263,490**
Total net assets - beginning	1,614,419	1,851,233	496,740	370,689	4,333,081
Total net assets - ending	**$ 1,748,527**	**$ 1,951,377**	**$ 520,096**	**$ 376,571**	**$ 4,596,571**

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows

Proprietary Funds

June 30, 2008

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Collection of unemployment contributions	$ 1,436,930	$ -	$ -	$ -	$ 1,436,930
Tuition, residence, dining and other student fees	-	494,210	231,110	163,160	888,480
Research grants and contracts	-	481,012	81,679	138,640	701,331
Payments to suppliers	-	(758,274)	(177,927)	(151,520)	(1,087,721)
Payments to employees	-	(1,059,274)	(342,203)	(358,728)	(1,760,205)
Payments to students	-	(27,402)	(7,581)	(33,824)	(68,807)
Payments for unemployment benefits	(1,563,597)	-	-	-	(1,563,597)
Collection of loans to students and employees	-	4,244	1,394	130	5,768
Income from contract services	-	554,452	1,649	658	556,759
Maintenance costs	-	-	(3,678)	751	(2,927)
Auxilliary enterprise charges	-	232,694	38,934	(205)	271,423
Other receipts	64,108	(272,586)	22,850	27,161	(158,467)
Net cash provided by (used by) operating activities	**(62,559)**	**(350,924)**	**(153,773)**	**(213,777)**	**(781,033)**
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES					
State appropriations	-	673,134	221,587	232,223	1,126,944
Grants and contracts	-	-	1,617	2,096	3,713
Student organizations agency transactions	-	151	112	99	362
Other receipts (payments)	-	(14,498)	(5,049)	(1,778)	(21,325)
Net cash provided by non-capital financing activities	**-**	**658,787**	**218,267**	**232,640**	**1,109,694**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital appropriations	-	20,246	6,844	8,803	35,893
Purchases of capital assets	-	(130,449)	(85,007)	(19,656)	(235,112)
Proceeds from sales of capital assets	-	-	310	-	310
Proceeds from revenue obligation debt issuance	-	388,461	96,295	239	484,995
Other capital asset activity	-	3,405	(3,132)	2,755	3,028
Investments held by bond trustee, net	-	(188,075)	(1,133)	(161)	(189,369)
Principal paid on capital debt and leases	-	(65,001)	(15,491)	(7,846)	(88,338)
Interest paid on capital debt and leases	-	(44,995)	(24,960)	(2,460)	(72,415)
Net cash provided by (used in) capital financing activities	**-**	**(16,408)**	**(26,274)**	**(18,326)**	**(61,008)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	-	1,702,515	275,598	56,585	2,034,698
Purchases of investments	-	(1,814,383)	(271,684)	(59,339)	(2,145,406)
Investment earnings	62,559	7,405	16,383	5,393	91,740
Net cash provided by (used by) investing activities	**62,559**	**(104,463)**	**20,297**	**2,639**	**(18,968)**
Net increase (decrease) in cash and cash equivalents	**-**	**186,992**	**58,517**	**3,176**	**248,685**
Cash and cash equivalents at the beginning of the fiscal year	-	506,707	214,206	82,602	803,515
Cash and cash equivalents at the end of the fiscal year	**$ -**	**$ 693,699**	**$ 272,723**	**$ 85,778**	**$ 1,052,200**
Reconciliation of operating revenues net income (loss) cash provided (used) by operating activities					
Operating income (loss)	$ 71,549	$ (570,176)	$ (268,752)	$ (338,152)	$ (1,105,531)
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:					
Depreciation expense	-	125,780	41,645	23,340	190,765
Fringe benefits paid by the Commonwealth	-	-	74,733	89,515	164,248
Changes in assets and liabilities:					
Accounts receivable, prepaids and other assets	29,418	110,187	(3,973)	(2,811)	132,821
Accounts payable, accrued liabilities and benefits	(8,712)	24,169	1,060	13,568	30,085
Student deposits and other unearned and deferred revenues	-	2,750	337	485	3,572
Other noncurrent assets - restricted and liabilities	(154,814)	(43,634)	1,177	278	(196,993)
Net cash provided by (used by) operating activities	**$ (62,559)**	**$ (350,924)**	**$ (153,773)**	**$ (213,777)**	**$ (781,033)**

Non-cash investing, capital and financing activities:

The University System had $713,000 of non-cash activities, and the State and Community Colleges had $ 185,228,000 of non-cash activities in the form of completed capital projects from the Commonwealth at net book value and non-cash asset acquisitions.

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Financial Statements

Revolving Museum

The Revolving Museum (TRM) is a nationally recognized pioneer in the fields of public art, arts education, and urban renewal, serving as an evolving laboratory of creative expression for people of all backgrounds, ages and abilities who seek to experience the transformative power of art. Through public art, exhibitions and educational programs, TRM promotes artistic exploration and appreciation, encourages community participation and growth, and fosters opportunities for empowerment and social change.

They are an integral component of Lowell's Neighborhood Cultural Festival, providing public and performance art and activities.

Photography & Text courtesy of The Revolving Museum

Statement of Net Assets

Fiduciary Funds
June 30, 2008
(Amounts in thousands)

	Post - Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds	Agency Funds	Total
ASSETS					
Cash and short-term investments	$ -	$ -	$ 834	$ 408,907	$ 409,741
Assets held in trust for post - employment benefits:					
Cash and short-term investments	54,404	2,309,169	-	-	2,363,573
Investments at fair value	44,856,866	4,949,703	-	-	49,806,569
Assets held in trust for pool participants:					
Cash and short-term investments	-	4,545,143	-	-	4,545,143
Investments, restricted investments and annuity contracts	-	-	-	1,462,407	1,462,407
Assets held in trust	-	-	-	831,083	831,083
Receivables, net of allowance for uncollectibles:					
Taxes	-	-	-	1,947	1,947
Other receivables	7,055	179,632	-	109,676	296,363
Other assets	-	735,223	-	-	735,223
Total assets	**44,918,325**	**12,718,870**	**834**	**2,814,020**	**60,452,049**
LIABILITIES					
Accounts payable	34,921	2,408,947	-	44,693	2,488,561
Due to cities and towns	-	-	-	70,330	70,330
Lottery prizes payable	-	-	-	1,462,407	1,462,407
Agency liabilities	-	-	-	1,236,590	1,236,590
Other accrued liabilities	-	2,951	-	-	2,951
Total liabilities	**34,921**	**2,411,898**	**-**	**2,814,020**	**5,260,839**
NET ASSETS					
Restricted for employees' post - employment benefits	44,883,404	-	-	-	44,883,404
Restricted for external investment trust fund participants	-	10,306,972	-	-	10,306,972
Restricted for private purposes	-	-	834	-	834
Total net assets	**$ 44,883,404**	**$ 10,306,972**	**$ 834**	**$ -**	**$ 55,191,210**

The notes to the financial statements are an integral part of this statement

Statement of Changes in Net Assets

Fiduciary Funds
Fiscal Year Ended June 30, 2008
(Amounts in thousands)

	Post - Employment Benefits Trust Funds	External Investment Trust Funds	Private Purpose Funds	Total
ADDITIONS				
Contribution:				
Employer contributions	$ 2,082,388	$ -	$ -	$ 2,082,388
Employee contributions	1,038,314	-	-	1,038,314
Proceeds from sale of units	-	18,702,093	-	18,702,093
Total contributions	**3,120,702**	**18,702,093**	**-**	**21,822,795**
Net investment income :				
Net Investment income / (loss), net of management fees	(1,138,793)	448,863	-	(689,930)
Net investment income	**(1,138,793)**	**448,863**	**-**	**(689,930)**
Total additions	**1,981,909**	**19,150,956**	**-**	**21,132,865**
DEDUCTIONS				
Administration	22,548	-	-	22,548
Retirement benefits and refunds	3,508,232	-	-	3,508,232
Cost of units redeemed	-	15,831,021	-	15,831,021
Distribution to unit holders	-	161,423	-	161,423
Total deductions	**3,530,780**	**15,992,444**	**-**	**19,523,224**
Net increase	**(1,548,871)**	**3,158,512**	**-**	**1,609,641**
Net assets - beginning	46,432,275	7,148,460	834	53,581,569
Net assets - ending	**$ 44,883,404**	**$ 10,306,972**	**$ 834**	**$ 55,191,210**

The notes to the financial statements are an integral part of this statement

The Taste of Africa Festival

Now in its 8th year, the Taste of Africa Festival attracts Africans and lovers of the African culture from all over Massachusetts and beyond. Hundreds of people attended including individuals from African countries such as Ghana, Nigeria, Cameroon, Sierra Leone and Zimbabwe.

The festival features performing arts as well as traditional and modern arts and crafts and a wide variety of African food. Among the artists performing were a dance troupe from Ghana, Mask dancers from Sierra Leone and Lamine Toure and Group Saloum. Toure was born into a family of griots, who are a caste of musicians and oral historians among the Wolof people of Senegal. This talented group of percussionists plays Seneglese mbalax and Congolese souukous music.

Photography & Text courtesy of the Taste of African Festival Lowell

Discretely Presented Component Unit Financial Statements

Lowell Folk Festival

The Lowell Folk Festival celebrated its 22nd year and won an award this year from the National Endowment for the Arts (NEA) through its "Access to Artistic Excellence and Learning in the Arts" program.

This is the largest free folk festival in the nation, presenting an international array of folk music, craftspeople and artisans, as well as kids' activities to enthusiastic New England audiences every summer for over two decades. Local cultural organizations come together to prepare and sell foods representative of their heritage.

Among the dozens of artists this year was Penpa Tsering , a master of the music of his native Tibet, who demonstrated his skills on 14 of Tibet's traditional instruments. Also playing were Skatalites, founding fathers of the modern Jamaican sound and who virtually invented ska, the upbeat dance music that spawned rock steady and reggae, and inspired three waves of British and American ska revivalists. Balla Kouyaté, from Mali, is a virtuoso player of an ancient instrument called the balafon, the West African ancestor of the marimba, the xylophone, the vibes, and a host of related instruments.

Photography courtesy of Phil Lupsiewicz, National Park Service
Text courtesy of www.lowellfolkfestival.org

Statement of Net Assets

Component Units

June 30, 2008

(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Reclassifications	Total
ASSETS						
Current assets:						
Cash and cash equivalents	$ 58,050	$ 19,771	$ 229,990	$ 172,556	$ -	$ 480,367
Short-term investments	147,482	506,870	52,930	663,448	-	1,370,730
Receivables, net of allowance for uncollectibles:						
Federal grants and reimbursement receivable	23,216	-	8,166	34,816	-	66,198
Loans	-	-	221,117	44,100	-	265,217
Other receivables	29,718	23,795	89,393	38,611	-	181,517
Due from cities and towns	-	-	-	28,480	-	28,480
Due from primary government	112,183	12,021	5,777	93,281	-	223,262
Inventory	63,545	-	-	829	-	64,374
Other current assets	110,251	9,013	-	15,238	-	134,502
Total current assets	**544,445**	**571,470**	**607,373**	**1,091,359**	**-**	**2,814,647**
Noncurrent assets:						
Cash and cash equivalents - restricted	-	-	-	23,642	-	23,642
Long - term investments	-	64,665	1,558,031	32,881	-	1,655,577
Restricted investments and annuity contracts	596,577	-	-	22,935	-	619,512
Accounts receivables, net	-	-	-	15,679	-	15,679
Loans receivables, net	-	-	3,077,970	366,132	-	3,444,102
Due from primary government	-	-	-	308,634	(300,115)	8,519
Non-depreciable capital assets	854,130	323,529	-	112,981	-	1,290,640
Depreciable capital assets, net	7,123,230	6,453,525	-	1,210,007	-	14,786,762
Other noncurrent assets	345,719	11,069	6,000	53,833	300,115	716,736
Total noncurrent assets	**8,919,656**	**6,852,788**	**4,642,001**	**2,146,724**	**-**	**22,561,169**
Total assets	**9,464,101**	**7,424,258**	**5,249,374**	**3,238,083**	**-**	**25,375,816**
LIABILITIES						
Current liabilities:						
Accounts payable and other liabilities	227,694	41,164	20,490	155,666	-	445,014
Accrued payroll	51,714	2,830	-	2,090	-	56,634
Compensated absences	15,867	4,239	-	2,866	-	22,972
Accrued interest payable	110,411	59,420	71,026	8,656	-	249,513
Due to primary government	-	-	-	2,390	-	2,390
Deferred inflow of resources	-	-	8,984	35,119	-	44,103
Capital leases	109,206	-	-	-	-	109,206
Bonds, notes payable and other obligations	243,390	49,235	152,243	150,845	-	595,713
Total current liabilities	**758,282**	**156,888**	**252,743**	**357,632**	**-**	**1,525,545**
Noncurrent liabilities:						
Compensated absences	-	8,134	-	474	-	8,608
Accrued interest payable	-	77,628	2,647	12	-	80,287
Deferred inflow of resources	36,949	133,027	-	28,846	-	198,822
Capital leases	565,635	-	-	-	-	565,635
Bonds, notes payable and other obligations	4,817,301	2,260,287	3,171,260	889,951	-	11,138,799
Net post - employment benefits obligation	108,941	2,449	-	4,305	-	115,695
Other noncurrent liabilities	79,890	-	121,579	23,260	-	224,729
Total noncurrent liabilities	**5,608,716**	**2,481,525**	**3,295,486**	**946,848**	**-**	**12,332,575**
Total liabilities	**6,366,998**	**2,638,413**	**3,548,229**	**1,304,480**	**-**	**13,858,120**
NET ASSETS						
Invested in capital assets, net of related debt	3,270,890	4,755,443	-	1,133,202	-	9,159,535
Restricted for:						
Capital projects	-	-	-	193	-	193
Other purposes	19,722	50,843	1,629,748	506,159	-	2,206,472
Unrestricted	(193,509)	(20,441)	71,397	294,049	-	151,496
Total net assets	**$ 3,097,103**	**$ 4,785,845**	**$ 1,701,145**	**$ 1,933,603**	**$ -**	**$ 11,517,696**

Statement of Revenues, Expenses and Changes in Net Assets

Component Units
Fiscal Year Ending June 30, 2008
(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Reclassifications	Total
Operating revenues:						
Charges for services	$ 440,962	$ 436,162	$ 6,080	$ 921,426	$ -	$ 1,804,630
Other	48,476	52,437	-	114,759	-	215,672
Total operating revenues	**489,438**	**488,599**	**6,080**	**1,036,185**	**-**	**2,020,302**
Operating expenses:						
Cost of services	484,672	288,186	10,834	1,052,099	656,781	2,492,572
Administration costs	685,202	32,659	2,760	106,335	-	826,956
Depreciation	383,913	204,688	-	72,297	-	660,898
Total operating expenses	**1,553,787**	**525,533**	**13,594**	**1,230,731**	**656,781**	**3,980,426**
Operating income (loss)	**(1,064,349)**	**(36,934)**	**(7,514)**	**(194,546)**	**(656,781)**	**(1,960,124)**
Nonoperating revenues (expenses):						
Operating grants	898,895	28,463	-	145,654	-	1,073,012
Interest income	24,115	41,558	189,167	26,655	-	281,495
Interest expense	(257,107)	(191,010)	(173,038)	(35,626)	656,781	-
Other nonoperating revenues (expenses)	11,337	10,000	-	412	-	21,749
Nonoperating revenues (expenses), net	**677,240**	**(110,989)**	**16,129**	**137,095**	**656,781**	**1,376,256**
Income (loss) before contributions and operating transfer	**(387,109)**	**(147,923)**	**8,615**	**(57,451)**	**-**	**(583,868)**
Capital contributions	293,348	-	62,782	98,809	-	454,939
Capital contribution from Commonwealth	-	4,360,885	-	-	-	4,360,885
Change in net assets	**(93,761)**	**4,212,962**	**71,397**	**41,358**	**-**	**4,231,956**
Net assets - beginning	3,190,864	572,883	1,629,748	1,892,245	-	7,285,740
Net assets - ending	**$ 3,097,103**	**$ 4,785,845**	**$ 1,701,145**	**$ 1,933,603**	**$ -**	**$ 11,517,696**

Tanglewood

Established in 1940 by former Boston Symphony Orchestra Music Director Serge Koussevitzky, the Tanglewood Music Center (TMC) provides a unique, in-depth musical experience for emerging professional musicians of exceptional ability. Participants in the program, who all attend as Fellows of the Music Center (with costs of tuition, room, and board covered by their fellowships), work with internationally renowned artists, including members of the Boston Symphony, resident faculty, and guests. According to recent estimates, 20 percent of the members of American symphony orchestras, and 30 percent of all first-chair players, studied at the TMC. Tanglewood Institute sponsors a variety of programs that offer individual and ensemble instruction to talented younger students, mostly of high-school age.

Tanglewood adds $50 million to the economy of the Berkshires each year, offering classical, jazz, dance and contemporary music all summer long. In addition to the main stage and music shed, lawn seating for performances is also very popular for picnics.

Attendance over the first Tanglewood season, in 1937, numbered 30,000. More than 300,000 people attended concerts at Tanglewood in the summer of 2006.

Photography of the Koussevitzky Music Shed and Seiji Ozawa Hall, courtesy of Stu Rosner, photograph of Dianne Reeves at the Tanglewood Jazz Festival, courtesy of Hilary Scott, photograph of the picnickers on the lawn, courtesy of the BSO.

Text from www.bso.org

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Commonwealth of Massachusetts (Commonwealth) have been prepared in accordance with accounting principles generally accepted in the United States of America, (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

A. Financial Reporting Entity – Basis of Presentation

The Commonwealth is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 160 members; and the Judicial Branch made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 56 independent authorities and agencies. Below the level of state government are 351 cities and towns exercising the functions of local governments. The cities and towns of the Commonwealth are also organized into 14 counties, but 7 of those county governments have been abolished in recent years.

For financial reporting purposes, the Commonwealth has included all funds, organizations, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 34 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Further descriptions of component units are found in note 13 to the basic financial statements.

Blended Component Units – Blended component units are entities that are legally separate from the Commonwealth, but are so related to the Commonwealth, that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The net assets and results of operations of the Massachusetts School Building Authority (MSBA), the Pension Reserves Investment Trust Fund (PRIT) and the Massachusetts Municipal Depository Trust (MMDT) are presented as a major governmental fund in the case of MSBA and as external investment trusts within the fiduciary type in the case of PRIT and MMDT.

Entities Audited Separately from the Commonwealth but are not legally separate from the Commonwealth – these entities include Massachusetts State Lottery Commission, which is a division of the Office of the State Treasurer and Reciever – General, the Health Care Security Trust (HST) – which is a non-major governmental fund and the Commonwealth of Massachusetts Owner Controlled Workers' Compensation and General Liability Insurance Program (OCIP), which is reported as part of the Commonwealth's other governmental fund activity.

The institutions of higher education of the Commonwealth are also not legally separate from the Commonwealth and have operations and net assets that are

presented as part of the Commonwealth's business-type activities. These include the University of Massachusetts System (including component units) and the State and Community College System of 9 state and 15 community colleges as well as the Massachusetts State College Building Authority, which is a blended component unit of the state college system. The various community and state colleges also have foundations and ancillary entities that are discretely presented component units of those entities.

Other Discretely Presented Component Units that are Separately Audited - Three major component units, the Massachusetts Bay Transportation Authority – (MBTA), the Massachusetts Turnpike Authority (MTA) and the Massachusetts Water Pollution Abatement Trust (MWPAT) are presented in the basic financial statements. Eleven non-major non-transportation related component units and 15 regional transit authorities (inclusive of the Metrowest Regional Transit Authority which began operations in fiscal year 2008 (FY08) are also presented as non-major component units.

During FY08, the MTA changed its fiscal year end from December 31 to June 30, 2008. The discretely presented component unit statement of revenue, expenses and changes in net assets as of June 30, 2008 presented herein for the MTA are for the eighteen months then ended instead of the calendar year ending December 31, 2007.

Special Item

During FY08, the MTA recognized approximately $4.3 billion in a capital contribution of assets from the Commonwealth related to the Central Artery / Tunnel Project. Because of the change in the MTA's fiscal year end discussed previously, this transfer from the Commonwealth was recognized in FY07 on the Commonwealth's financial statements, FY08 for the MTA.

Details on these component units are presented in Note 13 to the Basic Financial Statements.

Related Organizations

The following are "related organizations" under GASB Statement No. 14, *The Financial Reporting Entity* as amended by Statement 39: Massachusetts Port Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority and Massachusetts Technology Development Corporation. The Commonwealth is responsible for appointing a voting majority of the members of each entity's board, but the Commonwealth's accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the Commonwealth and therefore are not part of these financial statements.

Availability of Financial Statements

The separetly audited financial statements of the Commonwealth's component units and funds may be obtained by directly contacting the various entities. Contact the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660 for the contact information.

B. Government – Wide and Fund Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are defined as either governmental or business-type activities. Governmental activities generally are financed through

taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

Government – Wide Financial Statements

The **Statement of Net Assets** presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.

- **Unrestricted net assets** consist of net assets, which do not meet the definition of the two preceding categories.

Restricted net assets are used prior to unrestricted net assets.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue and offset or supplant the net operating deficit or surplus from governmental or business – type operations.

Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures and changes in fund balances for its major and aggregated non-major funds.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with non-major funds being combined into a single column.

C. *Measurement Focus and Basis of Accounting*

The Commonwealth reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Governmental Activities – Government – Wide financial statements - are reported using the economic resources management focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental Funds – Fund financial statements **-** account for the general governmental activities of the Commonwealth. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services are recognized in the year for which they are received or subject to accrual, grants expended or services provided. The measurement period for accrual for taxes generally is one year for income, corporate and other taxes and within thirty days for sales and use taxes, for taxes earned. For federal and other reimbursements, the measurement period for accrual is generally sixty days if the related expenditures being reimbursed occurred previous to year end. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due. Compensated absences, claims and judgments, termination benefits and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources. Amounts incurred but not reported for Medicaid are reported to the extent that services are rendered before June 30th.

Business – Type Activities – Government – Wide financial statements account for activities for which a fee is charged to external users for goods or services. In these services, debt may be issued backed solely by these fees and charges. There may be also a legal requirement or a policy decision to recover costs. As such, these funds account for operations similarly to a for – profit business. The Commonwealth's Institutions of Higher Education's operations are reported as systems within the proprietary funds. Proprietary fund types are described in more detail below.

Proprietary and Fiduciary Funds – Fund financial statements are presented on the same basis of accounting as the business-type activities in the government – wide financial statements. Post-employment benefits and refunds are recognized when due and payable.

The Commonwealth reports the following fund types:

Governmental Fund Types:

General Fund, a governmental fund, is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Special Revenue Funds account for specific revenue sources that have been aggregated according to Commonwealth Finance Law to support specific governmental activities.

Debt Service Fund accounts for the accumulation of resources for and the payment of debt.

Capital Projects Funds account for the acquisition or construction of major Commonwealth capital facilities financed primarily from bonds and federal reimbursements.

Permanent Funds account for resources that are legally restricted to the extent that earnings, not principal may be used for the Commonwealth's programs. These are different than private – purpose funds below as those benefit individuals, private organizations and other governments directly. The only permanent fund the Commonwealth has is the Massachusetts School Fund, established in 1834 as a fund "for the aid and encouragement of common schools."

The fund was originally capitalized from the proceeds of the 1820's sale of the public lands upon which the State of Maine was created.

Proprietary Fund Types:

Business - Type Activities account for programs financed in whole or in part by fees charged to external parties for goods and services. Major Proprietary Funds are the Unemployment Compensation Fund, the University of Massachusetts, State Colleges and Community Colleges.

Fiduciary Fund Types:

Post Employment Benefit Trust Funds report resources that are required to be held in trust for the members and beneficiaries of the Commonwealth's post employment benefit plans. These funds recognize employer and participant contributions in the period when contributions are due, and the Commonwealth has made a formal commitment to provide the contributions via an appropriation. Further information on the significant accounting policies for post employment benefit trust funds may be found in note 9 to the basic financial statements.

External Investment Trust Funds account for the portion of pooled cash and pension assets held under the custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

Private Purpose Funds account for various gifts and bequests held by the Commonwealth of which only the income is expendable for purpose specified by the donor. The majority of the individual accounts are for perpetual cemetery care endowments on behalf of deceased individuals.

Agency Funds account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

Within the governmental fund types, the Commonwealth has established the following major funds, in addition to the General Fund:

Highway Fund, a governmental fund, accounts for user taxes including the gas taxes and fees to finance highway maintenance and safety services.

Lottery Funds, governmental funds, account for the operations of the State and Arts Lotteries, which primarily finance payments for local aid.

The Massachusetts School Building Authority is presented as a governmental fund. This comprises the activity of the blended component unit, Massachusetts

School Building Authority, accounting for grants to cities, towns and regional school districts for school construction and renovation projects.

The proprietary funds include the following:

Unemployment Compensation Fund reports the taxes collected from employers and held by the United States Treasury in the Federal Unemployment Trust Fund, from which funds are drawn for the payment of benefits to the unemployed.

College and University Information, is presented here, aggregated by the University's activity, the State Colleges' activity and the Community Colleges' activity.

Reporting Standards

As allowed by GASB statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Commonwealth's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Fiscal Year Ends

All funds and discretely presented component units are reported using fiscal years, which end on June 30.

Program Revenue

Program revenue is defined by the Commonwealth to be the revenue from fees and assessments collected by departments that are directly applicable to that department's operations.

Operating and non-operating revenues and expenses

Revenues and expenses of business - type activities and proprietary funds are classified as operating or nonoperating and are subclassified by object. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

E. *Cash and Short-Term Investments*

The Commonwealth follows the practice of pooling the cash and cash equivalents. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. Interest earned on pooled cash is allocated to the General Fund and, when so directed by law, to certain other Governmental Funds.

The Office of the Treasurer and Receiver-General (Treasury) manages the Commonwealth's short term external mixed investment pool, the Massachusetts Municipal Depository Trust (MMDT). MMDT is comprised of two portfolios, a Cash Fund and a Short Term Bond Fund. For a complete copy of MMDT'separately issued financial statements, please feel free to contact the Trust's investment adviser at 800-392-6095, or James McDonald, Assistant Treasurer, Cash Management Department, at 617-367-9333.

Statutes authorize investment in obligations of the U.S. Treasury, authorized bonds of all states, bankers acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. The Cash Fund investments are carried at cost, which approximates fair value.

Portions of the post-employment benefit trust funds invest in the Pension Reserves Investment Trust (PRIT) Fund, an external investment pool managed by the Pension Reserves Investment Management (PRIM) Board. The State Employees' and Teachers' PERS are required to invest in the PRIT Fund and comprise approximately 41.3% and 46.4% of the net assets of the PRIT Fund. For a complete copy of PRIT's separately issued financial statements, contact the PRIM Board at 84 State Street, Boston, MA 02109.

The Commonwealth's investments, including those of the PRIT Fund, are comprised of investments in marketable securities; primarily domestic and international equities and fixed income securities as well as non-marketable securities; primarily real estate, venture capital and private equity limited partnerships, hedge fund of funds and other alternative investments. Marketable securities, including the Short Term Bond Fund component of MMDT, are reported at fair value based upon quoted market prices. Non-marketable securities are reported at estimated fair values as determined by management with input from the PRIM Board and its investment managers. Non-marketable securities comprise approximately 31.1% and 40.7% of the net assets/fund balance of the State Employees' PERS, Teachers' PERS and the Health Care Security Trust Fund (HST). As of July 1, 2008, the HST assumed responsibility for the State Retiree Benefits Trust Fund which is used to fund post-employment benefit costs other than pensions (OPEB) in the Commonwealth.

The investments of the PRIT are held separately from those of other Commonwealth funds, with the exception of their investments in the MMDT. Security transactions are recorded on the trade date the securities are purchased or sold. The cost of a security is the purchase price or, in the case of assets transferred to PRIT by a Participating or Purchasing System, the fair value of the securities on the transfer date.

MMDT's investments are carried at amortized cost, which approximates fair value. The primary government's and component unit's share are reported as short-term investments within their respective reporting categories.

Investments of the University of Massachusetts (UMass) are stated at fair value. Annuity contracts represent guaranteed investment contracts and are carried at present value.

F. ***Receivables***

In general, tax revenue is recognized on the government-wide statements, when assessed or levied and on the governmental financial statements to the extent that it is both measurable and available, based upon collection experience. If revenue is not received by year – end, receivables are declared. Receivables are stated net of estimated allowances for uncollectible accounts.

Reimbursements due to the Commonwealth for its expenditures on federally funded reimbursement and grant programs are reported as "Federal grants and reimbursements" or "Due from federal government" in the statement of net assets.

"Other Receivables" represent amounts due to Commonwealth including Lottery revenues and Higher Education receivables from students, amounts due to the University of Massachusetts from related organizations and other items.

Included in receivables for FY08 are amounts due to the Commonwealth under provisions of the Master Settlement Agreement between five tobacco companies and 46 states, including the Commonwealth. Pursuant to provisions of GASB Technical Bulletin No. 2004-1 "Tobacco Settlement Recognition and Financial Reporting Entity Issues", a receivable has been declared for $144.1 million, representing 50% of the amounts estimated to be received in FY09, adjusted for historical trends and included as part of other nonmajor governmental fund activity.

G. ***Due From Cities and Towns***

"Due from Cities and Towns" represents reimbursements due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.

On July 9, 2004, the Governor signed Chapter 169 of the Acts of 2004, related to the financial ability of the City of Springfield, (the City). Section 2 of the Act provides for $52,000,000 in zero interest loans to be drawn from time to time by a finance control board established by the Act. This activity is recorded in the General Fund. The loans are to be paid back to the Commonwealth no later than June 30, 2012. The loan balance of $49,400,000 is reflected as "Due from Cities and Towns." The Act provides for no forgiveness of the loans and failure to repay the full value of loans disbursed from the fund to the City shall result in an equally commensurate reduction in local aid payments made by the Commonwealth to the City beginning in FY13.

H. ***Capital Assets***

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements.

Methods used to value capital assets

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

Capitalization Policies

All land, non-depreciable land improvements and donated historical treasures or works of art are capitalized. Singular pieces of equipment, vehicles, computer equipment and software that equal or exceed $50,000 ($1,000 for the University of Massachusetts) are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds $100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Depreciation and useful lives

Applicable capital assets are depreciated using the straight-line method. Unless unallocable, depreciation expense is charged to the function of the capital asset being depreciated. Estimated useful lives are as follows:

Type of Asset	**Estimated Useful Life (in years)**
Buildings	40
Infrastructure - roads, bridges and tunnels	40
Infrastructure - beaches, boardwalks, bikeways, etc.	25
Infrastructure - dams, water and sewer systems	50
Furniture	10
Library collections that are not historical treasures	15
Equipment, office equipment and life safety equipment	10
Computer hardware and software	3 to 7
Vehicles	5

Central Artery / Tunnel Project Depreciation

In FY07 and continuing in FY08, certain Central Artery / Tunnel Project segments were open to traffic, but not yet transferred as of June 30, 2008 to the MTA or Massport, as required by Massachusetts general law. The Commonwealth is reporting these assets as Infrastructure – Central Artery / Tunnel Project and Land – Central Artery / Tunnel Project and has commenced depreciation on these assets. Because amounts are also reported as "Due to Component Units – Central Artery / Tunnel Project" and pursuant to provisions of Massachusetts statutes, the amount claimed on depreciation expense on the Central Artery / Tunnel Project is also an adjustment of the Due to Component Units – Central Artery / Tunnel Project to report the payable at net book value. These activities have no effect on the Commonwealth's statement of activities.

Construction in Process

Construction in process includes all associated cumulative costs of a constructed capital asset. Construction in process is relieved at the point at which an asset is placed in service for its intended use. For the CA / T, construction in process is relieved upon agreement between the Massachusetts Highway Department, the MTA and / or Massport, its engineers and respective boards. The chief engineer of the Highway Deparment, or their designees, jointly determine and certify to the MTA or Massport that the respective authorities can safely open each such facility or segment thereof to vehicular traffic or that such facility can safely be used for its intended purpose. As of June 30 2008, approximately $6,482,000,000 of project costs has been transferred to the various authorities. Separately, approximately $277,415,000 of pre-project costs was transferred to the MTA and approximately $21 million of costs was transferred outside of the current agreements to the Massport and to the Boston Redevelopment Authority.

Capital assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets.

I. ***Interfund/Intrafund Transactions***

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned. Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

J. ***Statewide Cost Allocation Plan – Fringe Benefit Cost Recovery***

The Commonwealth has elected not to present its cost allocation and recovery separately on the statement of activities. Certain costs of nine "central service" agencies of the Commonwealth are recovered from the remaining agencies in a federally approved statewide cost allocation plan. These costs that are allocated are based upon benefits received by the user agency that benefits from these services. The Commonwealth also appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees' group health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds. The employees' group health insurance and worker's compensation activity is accounted for in the governmental funds.

K. ***School Construction Grants and Contract Assistance Payable***

The Commonwealth, through the MSBA, was reimbursing cities, towns and regional school districts for 50% to 90% of approved eligible construction and borrowing costs for school construction and renovation. Under the former building assistance program, the Commonwealth is reimbursing muncipalities and regional school districts for 728 previously approved projects noted by MSBA as prior grant projects. The Commonwealth's share ranged from 50% to 90% of approved eligible construction and borrowing costs for each project. In addition, under the former program, 428 school projects were maintained on a waiting list for funding. The MSBA has assumed responsibility for these projects under its enabling statute. In FY08, the MSBA began approving grants under a new program for school construction and renovation. Under the new program, no municipal, regional, independent agricultural or technical school has any entitlement to funds from the MSBA. Grants approved by the MSBA for projects may range from 40% to 80% of approved elgible project costs. Under this new program, the MSBA is limited in the amount of grants it can approve in a fiscal year. The limit may change by the lesser of 4.5% of the limit for the prior fiscal year or the percentage change in dedicated sales tax revenue to the MSBA from the Commonwealth over the prior fiscal year. The MSBA records a liability for its share of total eligible project costs when the applicable eligibility requirements have been met. All of the 728 prior grant projects receiving an annual payment under the federal program have liabilities recorded

by the MSBA, which are reduced over time through annual payments by the MSBA. The waiting list projects can either receive a lump sum or a progress payment. Lump sum payments are recognized as a liability once construction has started. Progress payments have liabilites recognized once a grantee requests reimbursement from the MSBA. The remaining wait list projects are reported as commitments by the MSBA. The MSBA activity is reported as a major fund on the Governmental Fund financial statements.

The Commonwealth recognizes contract assistance due to MWPAT as a long-term liability on the statement of net assets. This liability equates to portions or the whole of certain debt service of the MWPAT. In addition, a payable is declared to the MTA as a cash flow reimbursement for the operations and maintenance of the Central Artery / Tunnel Project.

L. ***Compensated Absences***

Compensated absences are recorded as a long-term liability in the statement of net assets. For the governmental fund statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2008 but paid after the fiscal year end are also reported in the funds.

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay.

In the business - type activity and the discretely presented component units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

M. ***Dedicated Revenues and Pledges***

The Commonwealth has a number of pledges of revenue streams for its own bonds and various other bond issues of other authorities. These other authority's debts are not included in the SBFR, but are included in the CAFR.

Approximately $2.0 billion in revenues from federal grants passed through the Federal Grants Fund represents the greatest source of dedicated revenues. A portion of these grants are dedicated to funding the principal portion only of federal grant anticipation notes issued in fiscal 1998, 1999, 2001 and refunding notes in fiscal 2003. Total principal remaining to be paid on these federal grant anticipation notes is approximately $1.5 billion. Maturities are from FY09 through FY15. Principal paid during FY08 was approximately $130.5 million.

On August 4, 2008, the Governor approved legislation authorizing the issuance of an additional $1.1 billion of grant anticipation notes secured by future federal funds. Any such notes sold under this new provision will not be secured by a contingent pledge of motor fuels excises. The Commonwealth intends to begin to amortize the principal of any such notes beginning in fiscal 2016, after the original federal grant anticipation notes have been paid in full.

Commonwealth gas taxes are partially pledged to fund highway construction. As of June 30, 2008, 6.86 cents of the total 21 cent per gallon gasoline tax are pledged to fund approximately $483 million of principal and approximately $191 million in interest on the outstanding debt as of June 30, 2008. These bonds mature from FY09 to FY23 and were sold in various series issued previous to FY08. Annual principal and interest on the bonds are expected to

require less than approximately 30% of net current year revenues. Principal and interest paid during FY08 amounted to approximately $136.2 million and $66.6 million, respectively, inclusive of crossover refunding amounts matured.

Subsequent to year end, the Governor approved legislation that authorizes the issuance of an additional $1.9 billion of special obligation bonds secured by a pledge of motor fuels excise tax receipts to fund a portion of the Commonwealth's accelerated structurally deficient bridge program. The legislation provides for a pledge of up to 10¢ of the 21¢ motor fuels excise tax to secure the outstanding special obligation bonds described above and the bridge program bonds.

Portions of Commonwealth sales taxes are pledged as security for bonds issued by the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA) amounting up to 1% of applicable sales, respectively, for the authorities. Total dedicated sales tax revenue that was directed to the MBTA in FY08 was approximately $756 million. Dedicated revenues to the MBTA rise by either 3%, or the greater of the rise in the consumer price index in Boston, or annual sales taxes, with a floor of 0% annually.

The MSBA also receives a pledge of sales tax that will increase to 1% of applicable sales in the Commonwealth by FY11. In FY08, approximately $635 million or 85% of the dedicated sales tax revenue stream was directed to the MSBA. This amount rises to approximately $702 million or 90% of the dedicated sales tax revenue stream in FY09.

The Commonwealth has also pledged surcharges from areas contiguous to convention centers, and the Worcester DCU Arena and Convention Center to support such centers' operations. Sales taxes within the Convention Center districts support approximately $644 million of outstanding principal and related premiums approximately $630 million of interest on debts related to these Convention Centers. Taxes collected in FY08 were approximately $78.9 million, while debt service on the bonds was approximately $34.5 million.

N. ***Lottery Revenue and Prizes***

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities and principal-only and interest-only treasury strips in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the agency fund and on the statement of net assets. Though the annuities are in the Commonwealth's name in the case of a default, they are solely for the benefit of the prizewinner. The Commonwealth retains the risk related to such annuities.

O. ***Risk Financing***

The Commonwealth self insures for employees workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. For employee's workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to $100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

P. ***Net Assets***

The Commonwealth reports net assets as restricted where legally segregated for a specific future use by enabling legislation in accordance with GASB Statement No. 46, "*Net Assets Restricted by Enabling Legislation."* Otherwise, these balances are considered unrestricted.

Net Assets have been restricted as follows:

"Restricted for Capital Projects" – identifies amounts of unspent proceeds of capital bond issuances that can only be used for capital projects under federal tax laws.

"Restricted for unemployment benefits" – identifies amounts solely for the payment of unemployment compensation under federal labor laws.

"Restricted for retirement of indebtedness" – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 2*O* of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991. It also includes amounts held for Grant Anticipation Notes authorized by Chapter 11 of the Acts of 1997 and Chapter 121 of the Acts of 1998. Escrows related to crossover refundings are also restricted. Because removal of monies from these restrictions will constitute a technical default to bondholders, the amounts are restricted.

"Restricted for central artery workers' compensation and general liability" – identfies amounts held to pay future workers' compensation and general liability claims through the Central Artery / Tunnel Project's owner controlled insurance program. Various trust and insurance agreements require mutual consent of the Commonwealth and the companies involved to remove restrictions. Any program assets remaining after all losses and other obligations of the Central Artery / Tunnel Project are paid will revert to the Commonwealth.

"Restricted for other purposes" – identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. In Pension Trust Fund and External Investment Trust Fund net assets have been restricted for employee's pension benefits which identifies resources held in trust for the members and beneficiaries of the Commonwealth's pension plans and for external investment trust fund participants which identifies the portion of pooled cash and pension assets held under custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

"Restricted for Nonexpendable purposes" – identifies amounts held as permanent investments for a specific purpose.

As of June 30, 2008, the government-wide statement of net assets reports the following as restricted net assets (amounts in thousands):

Restricted for:	Governmental Activities	Business Type Activities	Government Wide Total
Unemployment benefits	$ -	$ 1,748,527	$ 1,748,527
Retirement of indebtedness	925,611	-	925,611
Central artery workers' compensation and general liability	48,864	-	48,864
Permanent trust	5,000	-	5,000
Restricted for other purposes	-	641,679	641,679
Total restricted net assets	$ 979,475	$ 2,390,206	$ 3,369,681

Q. ***Reclassifications***

Certain amounts in the separately issued Component Units financial statements have been reclassified to conform to the accounting classifications used by the Commonwealth. These amounts are presented as reclassifications in the combining statements for said Component Units. Due to the provisions of GASB Statement No. 34 (GASB 34) *Basic Financial Statements – and Managements Discussion and Analysis – For State and Local Governments,* major governmental and proprietary funds presented in a previous year may not be presented as a major fund in the current year. These changes were done because of internal changes in accounting policies.

R. ***Total Columns and Estimates***

Total and subtotal columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the Commonwealth's financial statements for the year ended June 30, 2008 from which the summarized information was derived.

The preparation of the Comprehensive Annual Financial Report requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and diclosures at the date of the financial report. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

S. ***Accounting Standards***

In FY09, the Commonwealth will be implementing Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments.* As of the date of the opinion, the Commonwealth has not evaluated the financial impact of implementing these statements.

In FY10, the Commonwealth will be implementing Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* Portions of Statement No. 53 convert Technical Bulletin No. 2003-1 *Disclosure Requirements for Derivatives Not Reported At Fair Value on the Statement of Net Assets,* to a Statement form. Current disclosures are presented as part of note 7 to the basic financial statements. As of the date of the opinion, the Commonwealth has not evaluated the financial impact of implementing these statements.

2. DEPOSITS, SHORT-TERM INVESTMENTS AND INVESTMENTS

Primary Government -

The Commonwealth maintains cash in the MMDT Cash Fund that is available for use by all funds. Each fund type's net equity in the Cash Fund is displayed in the basic financial statements as "Cash and short-term investments."

Pooled cash and short-term investments include the following (amounts in thousands):

	Governmental Activities	Business Type Activities	Government Wide Total
Cash and short-term investments	$ 5,174,161	$ 682,302	$ 5,856,463
Cash with fiscal agent	1,036,861	-	1,036,861
Total	$ 6,211,022	$ 682,302	$ 6,893,324

Lottery Annuity Contracts

The Massachusetts State Lottery Commission, a division of the Office of the State Treasurer and Receiver – General, purchases annuity contracts from insurance companies and United States treasury strips to fund the Commonwealth's liability for future installment prize obligations. These annuities and treasury strips represent an obligation of the insurance company and the custodial bank, respectively, to provide a fixed series of payments over a specified period. Only the annuity investments are subject to credit risk. For the annuity contracts, risk is controlled by purchasing these investments only from insurance companies with the top two rating issued by a national recognized ratings organization. However, due to the nature of these annuity contracts, the credit quality of the insurance company issuer is subject to change. At June 30, 2008, the Commonwealth held these investments with a face value of approximately $2.1 billion and with a carrying value of approximately $1.5 billion. Over 76% of these amounts are held in United States treasury strips at a custodial bank. No insurance company has an amount of annuities over 5% of the overall portfolio.

As of June 30, 2008, the MSBA held the following deposits and investments which are a component of Governmental Activities above (amounts in thousands):

Cash and cash equivalents	$ 1,230,081
Cash and cash equivalents held in pooled cash	97,197
Other unrestricted investments	218,317
Restricted investments	498,110
Total	$ 2,043,705

MSBA Deposits and Investments

The MSBA is authorized to invest in obligations of the US Treasury, its agencies and instrumentalities, bonds or notes of public agencies or municipalities, bank time deposits, guaranteed investment contracts, money market accounts and repurchase agreements. These investments are recorded at fair value. The MSBA has an investment policy that establishes the minimum credit quality for certain instruments, outlines investment procedures and

updates for periodic reporting. The MSBA investment policy does not specifically limit the amount the MSBA may invest in any one issuer.

Custodial Credit Risk – Pooled Cash

Custodial credit risk is the risk that in the event of a bank failure, deposits and investments may not be returned to the Commonwealth. Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk. As of June 30th, the Federal Deposit Insurance Corporation (FDIC) provided insurance protection up to $100,000 for each depository. The Commonwealth's main bank accounts are collateralized up to $50,000,000 with an additional approximate $48,933,000 at its depositary bank. Since June 30, 2008 the Commonwealth has collateralized their deposits held in banks by using collateral agreements with banks that require the collateral to be held by a third party for accounts in excess of the FDIC limits, along with additional depositary insurance issued by the FDIC for non-interest bearings accounts and current private bank insurance available for saving and cooperative banks. As of June 30, 2008, of the approximately $56,652,000 in pooled cash, $56,152,000 was exposed to this risk.

Custodial Credit Risk – HST

HST manages exposure to custodial credit risk by requiring all of its investment managers to hold investments in separate accounts with HST's custodian. As of June 30, 2008, HST held no amount of cash that was exposed to this risk.

Custodial Credit Risk – OCIP

In addition, the OCIP had approximately $2,000 exposed to Custodial-Credit-Risk. All of the investments held at the OCIP trust are insured or registered, or are securities held by the OCIP trustee in the name of the OCIP trust.

Custodial Credit Risk – Business - Type Activities

The Institutions of Higher Education and their blended component units have investment policies that may vary by Institution and blended component unit for custodial credit risk. Each institution carries deposits that are fully insured by the FDIC as well as uninsured deposits. As of June 30, 2008, the bank balances of uninsured deposits total approximately $132.7 million.

Custodial Credit Risk - MSBA

The MSBA does not have a formal investment policy for custodial credit risk. The MSBA carries deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) insurance, as well as uninsured deposits. As of June 30, 2008, the bank balances of uninsured deposits total $760 million.

Interest Rate Risk – Non – Post Employment Benefit Trust Funds

Interest rate risk is the extent that changes in interest rates of debt investments will adversely affect the fair value of an investment. These investments include certain short – term cash equivalents, various long-term items and restricted assets by maturity in years. The Treasury minimizes the risk of the market value of securities falling due to changes in interest rates by maintaining an effective duration of less than 90 days and holding all of the portfolio's total market value in securities with a maturity of six months or less.

As of June 30, 2008 the MMDT Cash Fund is considered a cash equivalent by the Commonwealth as its weighted average maturity is less than 64 days.

The Massachusetts General Laws authorize investments in the MMDT Cash Fund to include money market funds operated in accordance with Section 270.2a-7 of Title 17 of the Code of Federal Regulations or in any other security that qualifies for inclusion in a fund operated in accordance with the same Section.

Investments in the MMDT are classified as cash and short term investments above and include the Short Term Bond Fund (the Fund) authorized under General Laws Chapter 29, Section 38. Investments in the Fund are made in investment grade securities as defined by national statistical rating agencies. The Commonwealth assesses risk for the Fund by using duration. Duration is the weighted maturity of the security's cash flows, where the present values of the cash flows serve as weights. General Laws Chapter 29, Section 49 enumerates the Commonwealth's policy of investments included in the MMDT cash fund and other escrows.

The HST manages exposure to fair value loss arising from movements in interest rates with its fixed income investment securities by having the PRIM Board establish duration guidelines. The guidelines with each individual manager require that the effective duration of the HST's domestic fixed investment portfolio be within a specified percentage or number of years of the effective duration band of the appropriate benchmark index.

Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes including callable options, prepayments and other factors. These factors are reflected in the effective duration numbers provided in the following table. HST compares the effective duration of a manager's portfolio to the Lehman Brothers Aggregate Index for domestic core fixed income securities and the Merrill Lynch High Yield Master II Index for domestic high yield fixed income securities. The HST had debt investments totaling approximately $107 million at fair value with a range of effective weighted average duration from 0.83 to 8.83 years at June 30, 2008.

For the Short Term Bond Fund, the weighted average maturity is 3.3 years. Investments in the MMDT Short Term Bond Fund have a fair value of $394.9 million have investment maturities ranging from less than one year to more than ten years and with approximately 5% of the investment's fair values maturing in less than 1 year, approximately 67% from one to five years, approximately 3% from six to ten years and approximately 25% more than ten years.

Interest Rate Risk – OCIP

As of June 30, 2008, the OCIP had approximately $98,566,000 of investments at fair value, all of which mature within one year, all of which was invested in commercial paper rated A-1.

Interest Rate Risk – Business- Type Activities

The Institutions of Higher Education and their blended component units have debt investments stated at fair value of approximately $636 million and have investment maturities ranging from less than one year to more than ten years and with approximately 70% of the investment's fair values maturing in less than 1 year, approximately 13% from one to five years, approximately 5% from six to ten years and approximately 12% more than ten years.

Interest Rate Risk - MSBA

The MSBA's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from interest rates. As of June 30, 2008, the MSBA had $445 million invested in guaranteed investment contracts. These contracts are recorded at fair value. These contracts mature at different times ranging from FY09 to FY31.

Credit Risk –Primary Government

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth, exclusive of Pension Trust Funds, minimizes concentration of credit risk, the risk attributed to the magnitude of the investment in a single issuer. The Commonwealth's investment policy prohibits the Treasury from investing more than 10% of the total investment portfolio into any single financial institution or issuer, excluding various public entity securities and repurchase agreements. There are no restrictions in the amount that can be invested in public entity securities; however, the portfolio may be invested in U.S. Treasury obligations and repurchase agreements.

The Treasury requires investments in commercial paper and bankers' acceptances have the highest letter and numerical ranking as rated by nationally recognized statistical ratings organizations as defined by the investment act of 1940. The Treasury does not have any additional policies regarding credit ratings of investments. Credit ratings associated with the Commonwealth's investment in MMDT for the cash fund ranged from A1 / P1 to unrated, with approximately 97% rated A1 / P1, approximately 3% rated A2 / P2 at fair value.

For the Short Term Bond Fund, investments were approximately 18% at AAA, approximately 18% from A to AA, approximately 12% BBB and approximately 52% held in US Government or Government Agency Obligations.

For the Institutions of Higher Education and their blended component units presented in the Business-Type Activities, fair values of debt investments were approximately $316 million at AAA, approximately $98 million from A to AA, and approximately $222 million either unrated or BBB or less.

Credit Risk - MSBA

The MSBA's investments as of June 30, 2008 were not rated.

Credit Risk - HST
For the HST, the weighted quality average rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was AA- at June 30, 2008. For the fixed income securities as of June 30, 2008 for the HST, approximately $43 million was rated AAA, $13 million rated AA to A, $13 million rated BB to B and $38 million either unrated or CCC or less.

Foreign Currency Risk – HST

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. HST manages exposure to foreign currencies by establishing investment guidelines with each of its international managers. These guidelines set maximum investment balances for any currency and / or country holdings must be within a certain percentage of predefined benchmarks. HST's investments in foreign currencies as of June 30, 2008 were approximately $0.2 million in cash and investments, $50 million in equities, $5 million in fixed income investments and $11 million in alternative investments.

Interest Rate Risk – PRIT Funds

As pension trust funds have a different investment horizon, the PRIM Board manages PRIT's exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its debt securities investment managers. The guidelines with each individual manager require that the duration of the domestic debt investment portfolio be within a specified percentage or number of years of the duration band of the appropriate benchmark index. For emerging markets fixed income investments, the portfolio must have a duration with a band ranging from three to eight years.

Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes, including callable options, prepayments and other factors.

The PRIM Board compares the effective duration of a manager's portfolio to the Lehman Brothers Aggregate Index for domestic core "fixed income" securities and the Merrill Lynch® High Yield Master II Index for domestic high yield fixed income securities. The PRIT Fund had debt investments totaling approximately $14.3 billion at fair value with an effective weighted average duration range from .08 to 9.42 years at June 30, 2008.

Credit Risk – PRIT Funds

The PRIM Board establishes credit investment guidelines with each of its fixed income securities investment managers in establishing a diversified portfolio. These guidelines vary depending on the manager's strategy and the role of its portfolio to the overall diversification of the PRIT fund. The guidelines for the PRIT Fund's core fixed income portfolio establish the minimum credit rating for any security in the portfolio and the overall weighted average credit rating of the portfolio. The guidelines for the PRIT Fund's high yield, fixed income portfolio establish a market value range of securities to be held with a specific minimum credit rating and the overall weighted average credit rating of the portfolio.

Credit risk for derivative instruments held by PRIT results from counterparty risk. PRIT is exposed to credit risk resulting form counterparties being unable to meet their obligations under the terms of the derivative agreements. The weighted quality average rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was AA- at June 30, 2008.

Credit ratings associated with the Commonwealth's investment in the PRIT Fund ranged from AAA to A- investments with a fair value of approximately $6.8 billion, BBB to B- investments with a fair value of approximately $1.3 billion and the remaining $6.2 billion rated CCC to C-, unrated or are investments that are explicitly backed by the U. S. Government.

Foreign Currency Risk – PRIT Funds

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. The Treasury does not have a policy regarding foreign currency risk for the Pension Trust. The PRIM Board manages PRIT's exposure to foreign currencies by holding a percentage of PRIT's non-U.S. dollar denominated investments to U.S. dollars through forward foreign currency contracts. The PRIT Fund's investments in foreign currencies as of June 30, 2008 were approximately $140 million in cash and investments, $12.9 billion in equities, $2.2 billion in fixed income investments and $711 million in alternative investments.

Concentration of Credit Risk –HST and PRIT

The PRIM Board manages HST's and PRIT's exposure to concentration of credit risk by establishing guidelines with each investment manager, that limit the percent of investment in any single issue or issuer.

MMDT, HST and PRIT have no investments at fair value, that exceed 5% of HST or PRIT's net assets held in trust for pool participants as of June 30, 2008.

HST and PRIT may invest in derivative transactions. These investments of the Commonwealth may involve a degree of risk not accounted for on the respective financial statements. Descriptions of such derivatives are as follows:

A. Derivative Instruments

Forward Currency Contracts

The HST and PRIT enter into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates. Risks may arise upon entering these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

The contracts are marked-to-market daily and the change in market value is recorded as an unrealized gain or loss by HST and PRIT.

When a contract is closed, PRIT records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

As of June 30, 2008, HST had open foreign exchange contracts with combined net unrealized gains of approximately $8,852,000 with various delivery dates from July to September. As of June 30, 2008, PRIT had open foreign exchange contracts with combined net unrealized losses of $8,897,000 with various delivery dates to May, 2009.

Futures Contracts

The HST and PRIT may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owns or expects to purchase. Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to a percentage of the contract amount.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments, which may correspond to the change in value of the hedged instruments. In addition, there is a risk that HST and PRIT may not be able to close out its future positions due to a non-liquid secondary market. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

The HST and PRIT may also invest in financial futures contracts for non-hedging purposes.

The HST held 300 financial futures contracts at June 30, 2008, with various expirations during FY09 and FY10. These contracts were mainly for

Eurodollars, US Treasury securities and in the S&P 500 E-Mini Index. The total notional amount of these contracts as of June 30, 2008 was approximately $38,398,000, with an aggregated fair value as of that date of approximately $38,268,000, yielding an unrealized net appreciation (depreciation) of approximately ($130,000).

PRIT held 10,184 contracts outstanding at June 30, 2008 with various expirations from FY09 to FY10. These contracts are for cash and cash equivalents, fixed income, equities and commodities. The aggregated notional exposure amount as of June 30, 2008 was $6,125,675,000, with a fair value of $6,057,582,000, yielding an unrealized net appreciation (depreciation) of approximately ($68,093,000).

Payments are made or received by the PRIT each day, depending on the daily fluctuations in the value of the underlying security and are recorded as unrealized gains or losses. When the contracts are closed, the HST and Pension Trust Funds recognize a realized gain or loss.

Swaps – PRIT

PRIT has entered into interest rate swap contracts for the purpose of hedging the floating-rate interest exposure of its financed real estate investments. The swap contracts are reported at fair value, which represents their estimated liquidation values (costs). PRIT either receives cash from the swap counterparties or pays the swap counterparties monthly depending on whether the fixed-rate interest is lower or higher than the variable-rate interest. Variable rate interest received is the Federal Funds Effective Rate with fixed rates paid ranging from 0.08% to 7.65%. Changes in fair value are included as part of investment income.

As of June 30, 2008, PRIT had contracts in effect with an aggregated notional amount of approximately $9.0 billion to various investment banks that had maturity dates from FY09 to FY41. The contracts have an aggregate negative fair value of ($28,576,000). PRIT values these contracts using standard methods and techniques including the discounted cash flow analysis and option pricing models.

PRIT has various other swap contracts outstanding as of June 30, 2008 but have similar purposes and valuation techniques to those previously disclosed. Counterparty exposure was with various major investment companies with ratings ranging from A+ to AA+ and various other banks with other ratings. Open swap contracts as of June 30, 2008 were as follows (amounts expressed in thousands):

2008

		Interest Rate Swaps		Credit Default Swaps		Total Return Swaps	
Counterparty	**Credit Ratings**	**Gross Notional**	**Fair Value**	**Gross Notional**	**Fair Value**	**Gross Notional**	**Fair Value**
Morgan Stanley Capital Svcs. Inc.	A-	$ 1,330,147	$ (1,887)	$ 223,300	$ 2,044	$ 99,804	$ (2,621)
AIG	AA-	-	-	-	-	1,373,805	112,975
Citibank	AA-	1,110,387	1,313	9,550	(203)	-	-
Merrill Lynch Capital Services Inc.	A+	235,090	53	74,000	2,673	639,474	(45,055)
Credit Suisse	A-	-	-	6,200	(10)	725,997	(50,366)
Deutsche Bank AG	AA-	534,253	(8,181)	156,580	4,555	-	-
Barclays Bank PLC	AA-	583,448	(1,859)	78,700	1,001	-	-
Bank of America	AA-	586,900	209	13,620	77	-	-
Goldman Sachs International	AA-	25,084	102	87,690	(415)	450,268	(35,470)
All others	Various	222,232	375	173,391	700	258,242	(8,586)
		$ 4,627,541	$ (9,875)	$ 823,031	$ 10,422	$ 3,547,590	$ (29,123)

B. Discretely Presented Component Unit Investments

Component units invest in derivative transactions. Some component unit derivative transactions have potential terminations due to the global credit crisis. Detailed information on those transactions is found in the notes to the basic financial statements for those component units.

The Governor approved legislation on August 11, 2008 authorizing the Secretary of Administration and Finance, with the approval of the Governor, to provide certain types of credit support for payment obligations of the MTA on certain bonds and interest rate swap agreements of the MTA.

3. RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the statement of net assets, exclusive of amounts due from cities and towns and component units as follows (amounts in thousands):

Primary Government	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
Governmental receivables	$ 4,352,344	$ 1,371,874	$ 67,729	$ 1,662,533	$ 7,454,480
Business-type activity receivables	-	30,689	61,403	785,904	877,996
Less: allowance for uncollectibles	(1,401,481)	(33,951)	(4,544)	(1,545,154)	(2,985,130)
Receivables, net of allowance for uncollectibles	2,950,863	1,368,612	124,588	903,283	5,347,346
Less: current portion:					
Governmental activities	(2,452,470)	(1,292,862)	(1,429)	(204,173)	(3,950,934)
Business-type activities	-	(30,689)	(40,930)	(565,405)	(637,024)
Noncurrent receivables	$ 498,393	$ 45,061	$ 82,229	$ 133,705	$ 759,388

4. RECEIVABLES, PAYABLES AND TRANSFERS BETWEEN FUNDS

The purposes of receivables, payables and transfers between funds vary by Legislative authority. Transfers include the following: intergovernmental services, fringe benefit cost assessments, the year-end stabilization transfer, certain license fees collected by the registry of motor vehicles that fund various highway project initiatives, fund closure transfers, transfers from stabilization to fund current operations and various other transfers for operations, largely for institutions of higher education. Activity between funds reflected as due to / from primary government in the various statements are summarized as follows (amounts in thousands):

Governmental funds:	General	Highway	Lotteries	Other Governmental Funds	Total
Transfers In:					
Debt Service……	$ -	$ -	$ -	$ 2,119,558	$ 2,119,558
Operating transfers in……..	2,121,217	1,575,198	200,019	2,263,793	6,160,227
Subtotal……	2,121,217	1,575,198	200,019	4,383,351	8,279,785
Transfers Out:					
Appropriations……	(1,246,462)	-	-	-	(1,246,462)
Transfer of bond proceeds…….	-	-	-	(61,079)	(61,079)
Debt Service……	(1,066,255)	(801,653)	-	(251,650)	(2,119,558)
Operating transfers out……..	(3,744,493)	(110,184)	(1,127,991)	(1,731,342)	(6,714,010)
Less: Transfers to Fiduciary funds……..	354,742	-	-	328,552	683,294
Subtotal……	(5,702,468)	(911,837)	(1,127,991)	(1,715,519)	(9,457,815)
Total governmental funds……	**(3,581,251)**	**663,361**	**(927,972)**	**2,667,832**	**(1,178,030)**

Proprietary Funds:	University of Massachusetts	State Colleges	Community Colleges		Total
Transfers In:					
Operating transfers in from the General Fund and Other governmental funds……	$ 663,429	$ 300,797	$ 343,315		$ 1,307,541
Transfers Out:					
Operating transfers out to the General Fund……	(79,653)	(25,375)	(24,483)		(129,511)
Total proprietary funds……	**583,776**	**275,422**	**318,832**		**1,178,030**
Net transfers in / (out) between funds……	**$ (2,997,475)**	**$ 938,783**	**$ (609,140)**	**$ 2,667,832**	**$ -**

Remaining receivables and payables between funds as of June 30, 2008 largely occur due to the timing of accruals and the funding of escrows. The University also reported unremitted benefits costs as of June 30, 2008. The amount due to the general fund largely represents deficits funded by the general fund. The following is a summary of receivables and payables between funds remaining as of June 30, 2008:

Receivable Fund	Payable Fund	Amount
Governmental Funds:		
General	Nonmajor Governmental Funds	$ 436,096
Nonmajor Governmental Funds	Nonmajor Governmental Fund	65,060
Total Governmental Funds		**$ 501,156**
Proprietary Funds:		
University of Massachusetts		11,903
Total amounts due		**$ 513,059**

Central Artery / Tunnel Project

The Commonwealth is in the final stages of completion in the most expensive public construction project in the history of the United States, the Central Artery / Tunnel Project (CA/T or Project). The project depressed the Central Artery (Interstate 93) through downtown Boston and connected the Massachusetts Turnpike (Interstate 90) through a tunnel under Boston Harbor directly to Logan International Airport. In addition to Commonwealth debt and funds from the Federal Government, the MTA (a component unit) and Massport (a related organization) have contributed to the costs of construction. Once completed, the assets of the project will be transferred to these entities for operations and maintenance pursuant to the provisions of Chapter 81A of Massachusetts General Laws.

The Commonwealth has recorded as assets the Commonwealth's construction cost to date for the Central Artery / Tunnel Project, net of amounts transferred to the MTA and Massport. This amount is reflected as "Construction in Process – Central Artery / Tunnel Project". This amount is offset by two corresponding liabilities: "Due to Component Units – Central Artery / Tunnel Project"in the Statement of Net Assets for the MTA's portion and "Due to Other Related Organizations" for Massport's portion. As portions of the project are completed and transferred to either the MTA or Massport in accordance with Massachusetts General Laws, Chapter 81A, these amounts will be reduced for the value of the assets transferred.

The following summarizes the asset and liability position related to the CA/T for FY08; excluding the separate Central Artery North Area project spending that was constructed by the Commonwealth in the 1980's and transferred to the MTA in FY03.

Total Project budget as of June 30, 2008	**$ 14,807,000**
Determination of Amounts Payable:	
Cumulative authorized project invoices as of June 30, 2008	$ 14,619,248
Less: Amounts to be transferred to Massport	(365,000)
Less: Amounts transferred to MTA and recognized as assets by MTA	(6,481,931)
Less: Amounts transferred to other entities	(20,949)
Subtotal - Due to Component Units - Central Artery / Tunnel project as of June 30, 2008	7,751,368
Less: Reduction of payable due to accumulated depreciation of assets in use to be transferred	(884,912)
Due to Component Units - Central Artery / Tunnel Project as of June 30, 2008	**$ 6,866,456**
Reconciliation of Central Artery / Tunnel Fixed Assets to Assets to Due to Component Units - Central Artery / Tunnel Project as of June 30, 2008:	
Determination of Assets in Use:	
Infrastructure - Central Artery / Tunnel Project	$ 7,762,239
Less: Accumulated depreciation of infrastructure assets in use to be transferred	(884,912)
Net book value of Infrastructure - Central Artery / Tunnel Project	6,877,327
Land - Central Artery / Tunnel Project	340,064
Net book value of Central Artery / Tunnel Project Assets in use to be transferred	**7,217,391**
Construction in process - Central Artery / Tunnel Project	14,065
Subtotal	7,231,456
Less: Due to related organizations (Massport)	(365,000)
Due to Component Units - Central Artery / Tunnel Project as of June 30, 2008	**$ 6,866,456**

5. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2008 are as follows:

Primary Government *Governmental Activities*	July 1, 2007 Beginning Balance	Increases	Decreases and Reclassifications	June 30, 2008 Ending Balance
Capital assets not being depreciated:				
Land	$ 753,152	$ 43,101	$ 1,639	$ 794,614
Land Central Artery / Tunnel Project	339,007	1,077	20	340,064
Construction in process - non - Central Artery / Tunnel Project	2,148,211	563,760	192,463	2,519,509
Construction in process - Central Artery / Tunnel Project	127,681	-	113,616	14,065
Total capital assets not being depreciated	3,368,051	607,938	307,738	3,668,252
Capital assets being depreciated:				
Buildings	3,908,337	94,712	150	4,002,899
Machinery and equipment	859,137	47,898	14,318	892,717
Infrastructure non - Central Artery / Tunnel Project	11,101,175	126,346	-	11,227,521
Infrastructure - Central Artery / Tunnel Project	7,573,825	194,367	5,953	7,762,239
Total capital assets being depreciated	23,442,474	463,323	20,421	23,885,376
Less, accumulated depreciation:				
Buildings	(1,922,269)	(139,254)	689	(2,060,834)
Machinery and equipment	(600,397)	(56,485)	9,556	(647,326)
Infrastructure non - Central Artery / Tunnel Project	(5,060,930)	(279,056)	-	(5,339,986)
Infrastructure - Central Artery / Tunnel Project	(677,337)	(207,591)	16	(884,912)
Total accumulated depreciation	(8,260,933)	(682,386)	10,261	(8,933,058)
Total capital assets being depreciated, net	15,181,541	(219,063)	10,160	14,952,318
Governmental activity capital assets, net	$ 18,549,592	$ 388,875	$ 317,898	$ 18,620,570

Business - Type Activities				
Capital assets not being depreciated:				
Land	$ 80,215	$ 2,164	$ 236	$ 82,143
Construction in process	346,774	291,906	149,553	489,127
Historical treasures	854	-	-	854
Total capital assets not being depreciated	427,843	294,070	149,789	572,124
Capital assets being depreciated:				
Buildings	3,668,332	206,044	324	3,874,052
Machinery and equipment	841,354	106,385	75,909	871,830
Library collections, not including historical treasures	129,360	8,569	8,963	128,966
Total capital assets being depreciated	4,639,046	320,998	85,196	4,874,848
Less, accumulated depreciation:				
Buildings	(1,765,592)	(139,403)	52,854	(1,852,141)
Machinery and Equipment	(539,709)	(50,668)	23,940	(566,437)
Library collections, not including historical treasures	(22,230)	(694)	424	(22,500)
Total accumulated depreciation	(2,327,531)	(190,765)	77,218	(2,441,078)
Total capital assets being depreciated, net	2,311,515	130,233	7,978	2,433,770
Business - type activity capital assets, net	$ 2,739,358	$ 424,303	$ 157,767	$ 3,005,894
Total Primary Government capital assets, net	**$ 21,288,950**	**$ 813,178**	**$ 475,665**	**$ 21,626,464**

Depreciation expense was charged to the various functions of governmental activities as follows:

Function:		Amount
General government	$	76,765
Judiciary		43,362
Energy and Environmental		14,117
Health and human services		17,340
Transportation and public works		489,430
Elementary and Secondary Education		7
Public safety and homeland security		41,149
Housing and Economic development		130
Labor and workforce development		86
Total depreciation		682,386
Less: Amount recorded as an offset to depreciation to equalize the payable to component units and non - component units related to the Central Artery / Tunnel Project		(207,591)
Depreciation recorded to governmental activities	$	474,795

Increases to accumulated depreciation differ from depreciation expense as shown on the statement of activities due to the reduction of the payable to net book value of "Due to component unit – Central Artery / Tunnel Project," which is presented as an adjustment to depreciation expense so that the value of the untransferred assets and the amount due to the Turnpike Authority and to Massport always equal.

6. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term financing criteria, it is classified as a fund liability. Short-term debt may be issued on either a stand-alone basis or through a commercial paper program maintained by the Commonwealth.

A. ***General Fund***

The balance of revenue anticipation notes (RANs) outstanding may fluctuate during a fiscal year, but must be reduced to zero at June 30. During FY07, the Commonwealth issued RANs through its commercial paper program on a periodic basis to meet cash flow needs. A maximum of $400,000,000 of RANs were outstanding at any time during the year. All RANs were retired before the end of June 2008.

B. ***Capital Projects Funds***

The Commonwealth may issue bond anticipation notes (BANs) to temporarily finance its capital projects. BANs may be issued either on a stand-alone basis or through the Commonwealth's commercial paper program.

MSBA

During FY08, the MSBA had outstanding commercial paper notes of $455 million to fund school construction projects. These notes are secured by a $544.4 million irrevocable letter of credit which expires in FY10. The letter of credit carries a fee of .001% on the total amount. The maximum aggregate principal amount of commercial paper which may be outstanding at one time is

$500 million. At June 30, 2008, the amount outstanding was $455 million. The weighted average interest rate on commercial paper outstanding was 1.69%.

C. *Credit Facilities*

During FY08, the Commonwealth maintained credit facilities to provide liquidity support for commercial paper notes totaling $1,000,000,000. The Commonwealth has a total of five credit facilities to provide such liquidity support, each in the amount of $200,000,000. These facilities expire in periods at various times through 2015. In addition, the Commonwealth maintains standby bond purchase agreements for various bond issuances sold from FY97 through FY06. These agreements total $2,505,310,000 with fees ranging from 0.10% to 0.22% of related debt.

The following schedule details short – term financing and credit agreement activity, net, for all funds for the fiscal year (amounts in thousands):

	Beginning Balance July 1, 2007	Issued / Drawn	Redeemed / Repaid	Ending Balance June 30, 2008	Credit Limit June 30, 2008
General Fund:					
Revenue anticipation notes	$ -	$ 800,000	$ (800,000)	$ -	$ -
Credit Facility agreements	-	-	-	-	1,000,000
Subtotal - General Fund activity	-	800,000	(800,000)	-	1,000,000
Capital Projects Funds:					
Bond anticipation notes	-	-	-	-	-
Subtotal - Capital Projects Funds activity	-	-	-	-	-
Total short-term financing and credit agreement activity	-	800,000	(800,000)	-	1,000,000
MSBA					
Commercial paper	455,000	455,000	(455,000)	455,000	500,000
Total primary government	$ 455,000	$ 1,255,000	$ (1,255,000)	$ 455,000	$ 1,500,000

7. LONG-TERM OBLIGATIONS

Under the Massachusetts Constitution, the Commonwealth may borrow money (a) for defense, (b) in anticipation of receipts from taxes or other sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (c) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. The Constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan. In addition, the Commonwealth may give, loan or pledge its credit to another entity by a two-thirds vote of the members of each house of the Legislature. The Legislature may not in any manner allow the Commonwealth credit to be given or loaned to or in aid of any individual, or of any private association, or of any corporation, which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect hereto. However, the property of the Commonwealth is not

subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement.

As of June 30, 2008, the Commonwealth had issued two types of long-term debt obligations: general obligation bonds and special obligation bonds. General obligation bonds, which account for the large majority of the Commonwealth's indebtedness, are backed by the full faith and credit of the Commonwealth. Special obligation bonds are bonds secured by all or a portion of a specific revenue source and are not general obligations of the Commonwealth. The following is a summary of the Commonwealth's outstanding debt, excluding unamortized discounts and premiums, exclusive of capital leases, (amounts in thousands):

Type of Bond		Amount Outstanding
General Obligation Bonds	$	16,194,901
Special Obligation Bonds, including GANs		2,662,874
Outstanding Bonds	$	18,857,775
Less: Unamortized Premiums and bond issuance costs, net		(123,335)
Outstanding Principal, Commonwealth		18,734,440
MSBA debt		3,899,605
Governmental Outstanding Debt	$	22,634,045

General obligation bonds include not only such bonds, but college opportunity bonds and debt assumed from former counties. Special obligation bonds include all notes and bonds secured by federal transportation reimbursements, a portion of the Commonwealth's motor fuel excise tax and bonds secured by certain taxes and fees levied

The following is a table of the structure of general obligation bonds that are outstanding as of June 30, 2008:

General Obligation Bonds		Amount Outstanding	Percent of Total GO
Fixed Rate Bonds	$	12,147,066	75%
Variable Rate Bonds		4,047,835	25%

The following is a table of the different types of variable rate general obligation bonds:

Variable Rate GO Bonds	Amount Outstanding	Percent of Total GO
Variable Rate Demand Bonds……	$ 2,439,160	15%
Aucton Rate Securities……	565,425	4%
CPI-Index Bonds……	197,455	1%
LIBOR and Other Index Bonds……	845,795	5%

The following is a table of the different type of special obligation bonds currently outstanding:

Type of Bond	Amount Outstanding
Special Obligation Dedicated Tax Revenue Bonds (Convention Center Bonds)……	$ 643,715
Special Obligation Revenue Bonds (Gas Tax Bonds)……	482,953
Special Obligation Federal Highway Grant Anticipation Notes (GANS)……	1,536,206
Total Special Obligation Bonds……	$ 2,662,874
Less: Unamortized Premiums and bond issuance costs, net……	(14,904)
Outstanding Special Obligation Principal……	$ 2,647,970

A. *General Obligation Bonds*

General Obligation Bonds are authorized and issued primarily to provide funds for Commonwealth capital projects and Commonwealth supported local government improvements. The Commonwealth issues general obligation bonds and notes pursuant to Chapter 29 of the General Laws. These bonds are backed by the full faith and credit of the Commonwealth and are paid from the Governmental Funds, from which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to bond authorizations and capital spending in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

In addition, certain bonds are issued for specific programs approved by the Legislature. These bonds are known as College Opportunity Bonds. As of June 30, 2008, the Commonwealth had outstanding approximately $158 million in variable "U. Plan" bonds, sold in conjunction with a college savings program administered by the Massachusetts Educational Facility Authority (MEFA). These bonds bear deferred interest at a rate equal to the percentage change in the consumer price index plus 2% together with current interest at the rate of 0.5%.

In terms of bond structure, the large majority of general obligation bonds have been sold as fixed rate obligations. As of June 30, 2008, approximately 75% of the Commonwealth's outstanding GO debt was fixed-rate bonds. The remaining 25% of outstanding GO debt was variable rate bonds – bonds whose rate of interest fluctuate based on market or market index changes. The outstanding GO variable rate debt consists of several variable rate structures. Most are variable rate demand bonds or VRDBs. These are long-term bonds whose interest rates re-set daily or weekly. Because these bonds offer bondholders a "put" or tender feature, they are supported by standby liquidity facilities provided by commercial banks which require the applicable bank to purchase any bonds that are tendered and not successfully remarketed. As of June 30,

2008, the Commonwealth had $2.4 billion in outstanding VRDBs. This accounts for approximately 15% of total general obligation debt and approximately 60% of total general obligation variable-rate debt. All of these bonds are uninsured. As of June 30, 2008, none of the Commonwealth's outstanding VRDBs have been subject to failed remarketing and "put" back to the banks; consequently, there has never been a draw on a liquidity facility.

The Commonwealth has also issued general obligation variable-rate debt in the form of auction-rate securities. Like VRDBs, these are long-term bonds whose interest rates are re-set at pre-determined, short-term intervals. Unlike VRDBs, these bonds do not provide bondholders with a put feature and therefore do not require a supporting credit facility. The Commonwealth's auction-rate securities have long-term nominal maturities of over 20 years with interest rates re-set every seven days. A periodic "Dutch auction" process is designed to provide a mechanism of liquidity to bondholders, with bonds re-priced and traded in auctions managed by broker-dealers. As of June 30, 2008, approximately $565 million in Commonwealth general obligation auction-rate securities were outstanding. This represents approximately 4% of total general obligation indebtedness and approximately 14% of total general obligation variable-rate debt.

Auction Rate Failures During FY08

Beginning in February, 2008, several auctions of the Commonwealth's auction-rate bonds began to fail, meaning there were insufficient bids from investors to purchase the securities being offered for sale by existing holders. Four of the Commonwealth's six series of auction-rate bonds have experienced auction failure since February 13, 2008. Auction failures have been systemic throughout the municipal bond market, driven by credit and liquidity concerns caused primarily by widespread downgrades and negative rating outlooks of a number of municipal bond insurers. Upon auction failure, the interest rate paid to bondholders is the failure rate as specified in the bond documents. For the four series of Commonwealth bonds whose auctions have failed (approximately $401 million in debt obligations), the failure rate is based on a multiple of indices, with a maximum rate of 12%. The failed and undersubscribed auctions have resulted in higher interest costs, but as of June 30, 2008, none of these costs have exceeded their budgeted debt service amount of 5%.

Subsequent to the close of the fiscal year, in September 2008, the Commonwealth refunded its Series 2007 D-1 and D-2 auction rate bonds and replaced them with fixed rate bonds.

The remaining outstanding GO variable-rate debt pays interest to bondholders based on certain indices. For example, as of June 30, 2008, the Commonwealth had approximately $198 million of bonds that pay interest based on the consumer price index (CPI), as well as approximately $846 million of bonds that pay interest based on the three-month London interbank offered rate (LIBOR). These bonds make up approximately 1% and 5% of total outstanding general obligation indebtedness, respectively. All of the CPI and LIBOR bonds are hedged with interest rate swaps pursuant to which the Commonwealth receives from the swap counterparty the precise variable-rate interest due on the bonds.

ii MSBA Debt

As of June 30, 2008, the MSBA had issued a total of $4.0 billion of Dedicated Sales Tax bonds for the purpose of funding school construction and renovation projects. Interest on the bonds ranges from 4% to 5% and is payable semiannually each August 15, and February 15, until maturity in FY38.

B. Special Obligation Bonds

Highway Fund. Section 2*O* of Chapter 29 of the General Laws authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues, which are currently accounted for in the Highway Fund, are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed $1.125 billion. As of June 30, 2008, the Commonwealth had outstanding approximately $483 million of such special obligation bonds inclusive of unamortized premiums secured by a pledge of 6.86¢ of the 21¢ Commonwealth motor fuels excise tax. These amounts are exclusive of crossover refunding bonds, which have been issued to refund a portion of the outstanding special obligation bonds in fiscal 2012. Of the total amount outstanding, approximately $96 million was issued as variable rate debt with interest rates tied to the consumer price index (CPI). These bonds have been hedged via a floating-to-fixed interest rate swap agreement in which the floating rate received from the swap counterparty matches the floating rate paid to bondholders.

On August 4, 2008, the Governor approved legislation that authorizes the issuance of an additional $1.9 billion of special obligation bonds secured by a pledge of motor fuels excise tax receipts to fund a portion of the Commonwealth's accelerated structurally deficient bridge program. The legislation provides for a pledge of up to 10¢ of the 21¢ motor fuels excise tax to secure the outstanding special obligation bonds described above and the bridge program bonds.

Convention Center Fund. Chapter 152 of the Acts of 1997, as amended, authorizes $694.4 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston ($609.4 million), the Springfield Civic Center ($66 million) and the Worcester convention center ($19 million). The bonds are payable from moneys credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). In June, 2004, the Commonwealth issued $686.7 million of special obligation bonds secured solely by the pledge of receipts of tax revenues within the special districts surrounding the centers and other special revenues connected to such facilities, approximately $644 million inclusive of unamortized premiums of which remained outstanding as of June 30, 2008. Of this amount, approximately $87 million was issued as variable rate debt with interest rates tied to the CPI. These bonds have been hedged via a floating-to-fixed interest rate swap agreement in which the floating rate received from the swap counterparty matches the floating rate paid to bondholders.

Federal Grant Anticipation Notes. The Commonwealth has issued three series of federal grant anticipation notes (not including a refunding) yielding aggregate net proceeds of $1.5 billion, the full amount authorized to finance the current cash flow needs of the Central Artery Tunnel (CA/T) project, in anticipation of future federal reimbursements. The legislation authorizing such notes contains a

statutory covenant that as long as any such grant anticipation notes remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the grant anticipation notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than $17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges an additional 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. Principal amortization of the notes began in fiscal 2006 and will continue through fiscal 2015. Under the trust agreement securing the notes, aggregate annual debt service on grant anticipation notes may not exceed $216 million unless the rating agencies rating the notes confirm that exceeding $216 million in annual debt service will not cause them to withdraw or reduce their credit ratings. Such notes and the interest thereon are secured solely by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. In practice, the interest on such notes has been paid from Commonwealth appropriations.

On July 16, 2003, the Commonwealth issued $408 million of special obligation refunding notes for the purpose of refunding approximately $418 million of outstanding federal grant anticipation notes in December, 2008 and December 2010. The escrows funded by crossover refunding notes and related premiums are used only to secure the principal related to the crossover refunding portion. The interest related to these maturities is not secured by this escrow. Rather, it will be paid from the existing stream of either federal grants or appropriations. Interest on a portion of the newly issued refunding notes is paid from the proceeds of the escrow until the aforementioned prior notes are called for redemption. This crossover refunding results in economic savings to the Commonwealth similar to a traditional refunding, but does not meet the accounting definition of legal defeasance of debt, in which case the defeased debt and the related escrow accounts would have been removed from the debt of the Commonwealth. Accordingly, both the refunded debt and the refunding debt are reported as part of the outstanding debt of the Commonwealth until such time as principal amounts are repaid. Similarly, the refunding escrows established with the proceeds from the refunding notes are also recorded on the financial statements until such proceeds are expended for debt service. Pursuant to the crossover refunding method employed, interest on the notes will be paid solely by an escrow account established with the proceeds of the notes. Upon the redemption of $418 million of outstanding federal grant anticipation notes on the crossover dates in 2008 and 2010, the refunding notes will become secured by the Grant Anticipation Note Trust Fund.

As of June 30, 2008, approximately $1.5 billion of such notes, inclusive of the special obligation crossover refunding notes and unamortized premiums remained outstanding. All of these notes are fixed-rate obligations.

On August 4, 2008, the Governor approved legislation authorizing the issuance of an additional $1.1 billion of grant anticipation notes secured by future federal funds. Any such notes will not be secured by a contingent pledge of motor fuels excises. The Commonwealth intends to begin to amortize the principle of any such notes in fiscal 2016, after the federal grant anticipation notes for the CA/T project described above have been paid in full. Similar to the notes issued for the CA/T project, the Commonwealth expects to pay interest on the notes for the bridge program from Commonwealth appropriations.

C. *Interest Rate Swap Agreements – Objectives and Risks*

Under legislation approved by the Governor on August 11, 2008, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date shall constitute general obligations of the Commonwealth for which its full faith and credit is pledged. The floating rate received by the Commonwealth is used to offset the variable rate paid to bondholders. In most cases, only the net difference in interest payments is actually exchanged with the counterparty. In all cases, the Commonwealth remains responsible for making interest payments to the variable-rate bondholders. The intended effect of the agreements is essentially to fix the Commonwealth's interest rate obligations with respect to its variable-rate bonds. As of June 30, 2008, all of the Commonwealth's interest rate swaps were floating-to-fixed rate agreements. The remaining variable-rate debt of approximately $1.0 billion, or approximately 6% of the total outstanding general obligation debt, is un-hedged and, accordingly, floats with interest rates re-set on a daily or weekly basis.

The Commonwealth has entered into interest rate swap agreements for the sole purpose of hedging the interest rates on outstanding variable rate bonds, taking advantage of the fact that these bonds generally lower interest costs. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

Of the Commonwealth's variable-rate debt outstanding of approximately $4.0 billion, or approximately 25% of total general obligation debt, approximately $3.2 billion had interest rates synthetically fixed by means of floating-to-fixed interest rate exchange ("SWAP") agreements. The Commonwealth has entered into interest rate swaps with various counterparties pursuant to which the counterparties are obligated to pay the Commonwealth an amount equal to the variable-rate payment on the related bonds or a payment based on a market index of tax-exempt variable rate bonds, and the Commonwealth is obligated to pay the counterparties a stipulated fixed rate. The floating rate received by the Commonwealth from swap counterparties is used to offset the variable rate paid to bondholders. In most cases, only the net difference in interest payments is actually exchanged with the counterparty. In all cases, the Commonwealth remains responsible for making interest payments to the variable-rate bondholders. The intended effect of the agreements is essentially to fix the Commonwealth's interest rate obligations with respect to its variable-rate bonds. For example, during a period when interest rates rise, the Commonwealth would likely receive higher payments from swap counterparties that would be used to offset higher payments to bondholders of the outstanding variable rate bonds. During a period when interest rates decline, the reduction in interest payments to bondholders would likely offset the higher payments made to swap counterparties. But in both scenarios, the net obligation of the Commonwealth is fixed through the life of the swap and bonds. As of June 30, 2008, all of the Commonwealth's interest rate swaps were floating-to-fixed rate agreements and were deemed qualified hedges.

The table on the following page details this activity.

Objective of the Interest Rate Swap Agreements

In connection with the issuance of variable rate refunding bonds in 1997, 1998, 2001, 2003, 2005, and 2007, the Commonwealth entered into interest rate swap

agreements with certain counterparties. Additional swap agreements, as well as on a 2005 series of gas tax bonds, were initiated as part of the Convention Centers' permanent financing in FY04. The purpose of all these agreements is to effectively fix the interest rate payable on the corresponding variable rate refunding bonds, and to achieve synthetic interest rates that are lower than the rate that could have been achieved on a natural fixed rate basis at the time the agreements were entered into.

Terms of the Interest Rate Swap Agreements

The bonds and related swap agreements have final maturities ranging from 2009 to 2037. The swaps' total notional value of $3,203,825,000 matches the par amount of the related variable rate refunding bonds. Under the swap agreements, the Commonwealth pays the relevant counterparties fixed rates ranging from 2.925% to 5.25% and receives variable rate payments equal to the amount of variable rate payments the Commonwealth pays on the related variable rate refunding bonds.

The following chart details the Commonwealth's outstanding swaps and related bond issuances:

Associated Bond Issue	Notional Amounts Outstanding (thousands)	Effective Date	Fixed Rate Paid (Range)	Variable Rate Received	Fair Market Value as of 6/30 (thousands)	Final Termination Date	Counterparty	Counterparty Credit Rating
General Obligation Bonds:								
Series 1997B	$ 162,768	8/12/1997	4.659%	Cost of Funds	$ (11,995)	August 1, 2015	Goldman Sachs Mit Mar Der Prod	Aaa / AAA
Series 1997B	108,512	8/12/1997	4.659%	Cost of Funds	(7,806)	August 1, 2015	AMBAC	Aa3 / AA
Series 1998A & B	298,308	9/17/1998	4.174%	Cost of Funds	(13,925)	September 1, 2016	Lehman Brothers Der Prod	N / A
Series 1998A & B	198,872	9/17/1998	4.174%	Cost of Funds	(9,720)	September 1, 2016	Salomon / Citigroup	Aa1 / AA
Series 2001B & C	496,225	2/20/2001	4.150%	Cost of Funds	(27,167)	January 1, 2021	Morgan Stanley Der Prod	Aaa / AAA
Series 2003B	87,455	3/12/2003	4.500%	Cost of Funds/CPI	2,166	March 1, 2014	Goldman Sachs Mit Mar Der Prod	Aaa / AAA
Series 2003B	10,000	3/12/2003	4.500%	Cost of Funds/CPI	172	March 1, 2013	Lehman Brothers Special Fin	N / A
Series 2005A	548,885	3/29/2005	2.925%-4.00%	SIFMA	(12,212)	February 1, 2028	Citibank N.A.	Aa1 / AA
Series 2006C	100,000	11/29/2006	3.73%-3.85%	Cost of Funds/CPI	(1,747)	November 1, 2020	Citibank N.A.	Aa1 / AA
Series 2007A	400,000	5/30/2007	4.420%	LIBOR	(12,049)	May 1, 2037	Lehman Brothers Special Fin	N / A
Series 2007A (refunding)	445,795	5/30/2007	3.963% - 4.083%	LIBOR	(16,252)	November 2, 2025	Lehman Brothers Special Fin	N / A
Series 2007D	109,283	8/16/2007	3.942%	SIFMA - 3 bps	(4,319)	August 1, 2018	Merrill Lynch Cap Serv	AA- / A-1+
Series 2007D	54,642	8/16/2007	3.942%	SIFMA - 3 bps	2,170	August 1, 2018	Bear Stearns Fin Prod	Aaa / AAA
Subtotal	3,020,745				(112,684)			
Special Obligation Dedicated Tax Revenue Bonds								
Series 2004	28,863	6/29/2004	4.45% - 5.25%	Cost of Funds/CPI	(841)	January 1, 2018	Goldman Sachs Cap Markets	Aa3 / AA-
Series 2004	28,863	6/29/2004	4.45% - 5.25%	Cost of Funds/CPI	(539)	January 1, 2018	JPMorgan Chase Bank	Aaa / AA
Series 2004	28,864	6/29/2004	4.45% - 5.25%	Cost of Funds/CPI	532	January 1, 2018	Bear Stearns / JP Morgan	Aaa / AA
Series 2005A	96,490	6/12/2005	4.771% - 5.06%	Cost of Funds/CPI	(1,572)	June 1, 2022	Merrill Lynch Cap Serv	AA- / A-1+
Subtotal	183,080				(2,420)			
Total	$ 3,203,825				$ (115,104)			

During September and October of 2008, swaps designated with an N/A were mostly replaced due to the bankruptcy of Lehman Brothers Special Financing, Lehman Brothers Derivative Products, Inc. and related entities. The 1998 A&B swap above is in the process of being replaced as of the opinion date. The 2003B swap was replaced by Deutsche Bank AG which has a credit rating of Aa1 / AA-. The 2007A swap was replaced by Barclay's Bank PLC which is rated Aa1 / AA. The 2007A (refunding) swap was replaced by Deutsche Bank AG and Bank of New York Mellon and is rated Aaa / AA. The acquistion of the Bear Stearns Company by JP Morgan Chase and Co did not have an effect on the Commonwealth's swaps.

In addition, the Commonwealth is contingently liable for swaps associated with the Route 3 North Transportation Improvement Association Lease Revenue Bonds and the City of Chelsea Commonwealth Lease Revenue Bonds. These transactions are further discussed in Note 11 to the Basic Financial Statements.

Fair Market Value of the Interest Rate Swap Agreements

Swap rates for the types and remaining terms of the Commonwealth's swap agreements are generally lower (as of June 30, 2008) than those that prevailed when the various swap contracts were entered into. This is the result of two factors: (1) lower interest rates in general; and (2) the shortening of the remaining terms of the swap contracts due to the passage of time and an upward sloping yield curve for such instruments. As a result, the Commonwealth's swap agreements have an estimated fair market value of negative ($115,104,000) as of June 30, 2008. If all the Commonwealth's swap agreements had been terminated as of the end of fiscal year 2008 the Commonwealth would have been required to make a payment of this magnitude. Although the Commonwealth has the option of terminating its swap agreements at any time (and either make or receive any termination payment due), the Commonwealth's counterparties do not have such an option. Therefore, the Commonwealth would only have to make a payment of the amount estimated if certain termination events occurred, as described below. Based on the terms and provisions of the swap agreements, an involuntary termination of the swaps due to an event of the Commonwealth is remote. In the case of a voluntary termination due to an event of a counterparty, the Commonwealth would likely seek to maintain the existing hedge by replacing that counterparty with another.

Credit Risk of the Interest Rate Swap Agreements

The swap contracts require that the Commonwealth's counterparties maintain certain ratings levels. If they fail to maintain such ratings, the Commonwealth could choose to terminate the related swap agreement and receive or pay a termination payment depending on the interest rates at the time. Similarly, the Commonwealth is required to maintain a certain credit rating under the agreements, generally in the "A" category. If the Commonwealth's rating fell below those levels, the Commonwealth's counterparties could choose to make variable rate payments based on a market index (instead of the actual bond rate) which would subject the Commonwealth to basis risk, as noted below.

Basis, Market and Rollover Risk of the Interest Rate Swap Agreements

Because the terms on the interest rate swap agreements require the Commonwealth's counterparties to make variable rate payments equal to those the Commonwealth makes on the related variable rate bonds, the

Commonwealth is not generally subject to any basis or market risk as a result of these agreements. Under certain circumstances, such as a downgrade of the credit rating of the bonds or the enactment of tax-related legislation which causes the related bonds to trade differently, the swap agreements provide that the Commonwealth's counterparties, may, at their option, pay a variable rate that is based on one or more market indices such as LIBOR or the SIFMA swap index. Under these circumstances, the Commonwealth would be subject to basis risk if these indices varied significantly from the variable rates that were determined for the Commonwealth's variable rate demand bonds through the associated remarketing process.

The swap contracts have the same maturity dates and amortizations as the related bonds. Therefore, the Commonwealth is not subject to any rollover risk as a result of these agreements.

Termination Risk of the Interest Rate Swap Agreements

The swap contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swap agreements are not otherwise subject to termination except at the Commonwealth's option. If one or more of the swap agreements were terminated, then the related variable rate bonds would no longer be hedged and the Commonwealth would no longer be paying a synthetic fixed rate with respect to the bonds. In addition, if at the time of termination, the swap had a negative fair value, the Commonwealth would incur a loss and would be required to settle with the related counterparty or counterparties at the swaps' fair market values. However, to avoid a termination payment and to maintain the interest rate hedge, the Commonwealth would likely seek to replace counterparties to the swap agreement.

On September 15, 2008, Lehman Brothers Holdings Inc. ("LBHI"), the corporate parent of Lehman Brothers Derivatives Products Inc ("LBDP") and Lehman Brothers Special Financing Inc. ("LBSF"), filed for bankruptcy. At the time of the filing, the Commonwealth had outstanding interest rate swaps with LBDP and LBSF. The Commonwealth's outstanding interest rate swap with LBDP was subject to automatic termination upon such bankruptcy filing, with payment of a termination amount by the Commonwealth due within five days of notice of such termination. However, no notice of termination was given and, on September 16, 2008, the swap was assigned by the parties to LBSF, and is no longer subject to automatic termination. LBHI was the guarantor of the swaps originally entered into with LBSF, and as a result of LBHI's bankruptcy filing, those swaps are subject to termination at the option of the Commonwealth. On October 8, 2008, LBSF was replaced on the 2003 and 2007 swaps at no cost to the Commonwealth. These swaps have been assigned to new counterparties. It is the Commonwealth's intention to assign the 1998 swap to different counterparties in the near future without incurring termination costs. The Commonwealth could owe a termination payment if this swap were to be terminated at this time and was not assigned to replacement counterparties.

D. Outstanding Swapped Debt

Future debt service is calculated using rates as of June 30, 2008 for variable rate bonds. The net swap payments are calculated by subtracting the future variable rate interest payment per the swap agreement from the synthetic fixed rate payment per the swap agreement. The actual amount of variable rate interest paid and net swap payments made are affected by changes in variable interest

rates, changes in inflation, as well as changes in published indices – the London Interbank Offered Rate (LIBOR) and the Securities Industry and Financial Markets Association (SIFMA) floating rate. Changes in these payments are largely offsetting due to the structure of the variable rate bonds and the associated hedging swap agreements. (amounts in thousands):

Fiscal Year Ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2009	$ 12,305	$ 84,151	$ 50,823	$ 147,279
2010	34,895	83,697	50,061	168,653
2011	25,315	83,301	49,375	157,991
2012	119,445	81,854	46,434	247,733
2013	195,640	78,656	42,173	316,469
2014-2018	1,097,875	315,913	154,010	1,567,798
2019-2023	933,990	183,693	71,778	1,189,461
2024-2028	562,850	64,199	23,037	650,086
2029-2033	112,315	30,972	6,002	149,289
2034-2038	109,195	8,306	1,610	119,111
Total	$ 3,203,825	$ 1,014,742	$ 495,303	$ 4,713,870

Business - Type Activities – Swapped Debt

During FY07, Bunker Hill Community College entered into a swap agreement with the issuance of $8 million of variable rate bonds that mature in FY38. The swap effectively fixed the rate of its bonds to FY35 at 4.15%. At June 30, 2008, the swap had a fair value liability of approximately $402,000 in comparison to SIFMA. The University system also has various swaps through bonds issued by the University of Massachusetts Building Authority. The Building Authority's financial statements have complete details on the University's swap activity.

E. Outstanding Long Term Debt and Changes in Long Term Debt

For financial reporting purposes, long-term debt is carried at its face value. Unamortized discounts and premiums are shown separately. For capital appreciation bonds, the outstanding amount represents total principal and accreted interest to be repaid.

The amount of long-term debt authorized but unissued is measured in accordance with the statutory basis of accounting. Only the net proceeds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

Long-term debt outstanding (including unamortized premiums, discounts and issuance cost) and debt authorized and unissued at June 30, 2008 is as follows (amounts in thousands):

Purpose	Bonds Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs	$ 1,535,380	2009-2015	$ -
Capital Projects:			
General	6,445,118	2009-2038	3,972,697
Highway	8,323,108	2009-2038	2,962,949
Local Aid	1,792,134	2009-2031	47,352
Other	638,700	2008-2029	60,448
	17,199,060		7,043,446
Subtotal - Governmental activities debt (exclusive of MSBA)	$ 18,734,440		$ 7,043,446
MSBA Debt	3,899,605		
Governmental activities debt	$ 22,634,045		

Interest rates on the Commonwealth's debt outstanding at the end of FY08 ranged from 0.5% to 6.6%.

Changes in long-term debt outstanding (including discount and issuance cost) and bonds authorized - unissued for the year ended June 30, 2008 are as follows (amounts in thousands):

	Governmental Funds Debt - Primary Government	MSBA	Governmental Funds Bonded Debt	Authorized Unissued
Balance July 1, 2007	$ 18,736,961	$ 3,950,750	$ 22,687,711	$ 8,349,391
General and special obligation bonds:				
Proceeds, as defined as Principal, Premium less discount and issuance costs	1,305,945	-	1,305,945	(1,305,945)
Less: Net premium	(25,121)	-	(25,121)	-
Less: Principal on crossover refunding bonds	(103,615)	-	(103,615)	-
Less: Bonds retired	(1,179,730)	(51,145)	(1,230,875)	-
Outstanding Debt June 30, 2008*	$ 18,734,440	$ 3,899,605	$ 22,634,045	$ 7,043,446

* Includes unallocated proceeds of approximately $213.2 million.

Business - Type Activities – Colleges and University Debt

Building authorities related to the University of Massachusetts and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed $200,000,000. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts and state colleges have also entered into various loan agreements as participants in the Massachusetts Health and Educational Facilities Authority's (MHEFA) ongoing capital asset program to finance construction projects and equipment.

At June 30, 2008, debt service requirements to maturity for principal (including unamortized discount, capital appreciation and issuance costs) and interest including all variable rate interest not hedged by swap agreements (assumed interest rate is 5%) are as follows (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities				Business - Type Activities	
	General Obligation		MSBA Debt		Revenue Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 1,227,029	$ 908,002	$ 69,355	$ 188,008	$ 60,876	$ 89,974
2010	1,193,980	845,899	72,615	185,125	64,175	88,157
2011	1,267,930	781,586	73,145	181,995	68,008	85,144
2012	1,169,384	714,869	76,505	178,636	70,047	81,744
2013	1,232,062	654,080	80,110	175,032	72,438	79,670
2014 - 2018	5,015,155	2,454,838	466,895	811,822	387,296	342,912
2019- 2023	3,932,168	1,413,215	593,570	681,751	412,567	273,009
2024 - 2028	2,132,717	618,742	761,130	514,198	376,676	196,510
2029 - 2033	1,066,570	240,510	983,275	284,140	333,887	90,241
2034 - 2038	497,445	59,091	723,005	104,543	123,645	30,373
2039 - 2043	-	-	-	-	47,715	7,012
Total long - term debt	18,734,440	8,690,832	3,899,605	3,305,250	2,017,330	1,364,746
Less: Current Portion	(1,227,029)	(908,002)	(69,355)	(188,008)	(60,876)	(89,974)
Long - term debt	$ 17,507,411	$ 7,782,830	$ 3,830,250	$ 3,117,242	$ 1,956,454	$ 1,274,772

F. Prior Defeasance

In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities (from the proceeds of refunding bonds or from surplus operating funds) and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. With the exception of the crossover refunding activity discussed previously, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 2008, approximately $6,656,594,000 of bonds outstanding from activities in prior fiscal years are considered defeased.

G. Statutory Debt Limit

The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY08 was approximately $15,585,725,000. Outstanding debt subject to the limit at June 30, 2008 was approximately $13,504,384,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute to include general obligation bonds at the amount of their original net proceeds. It excludes BANs, discount and issuance costs, if any, special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, debt issued in conjunction with the MBTA Forward Funding, certain Central Artery / Tunnel debt and debt issued for the SMART program. The amounts excluded from the debt limit are as follows (amounts in thousands):

	Debt Outstanding
Statutory debt June 30, 2008	$ 18,734,440
Less amounts excluded:	
Premium and issuance cost	123,335
Special Obligation principal	(1,126,668)
GANs principal	(1,536,206)
County Debt Assumed	(375)
MBTA Forward Funding	(309,203)
SMART bonds	(946,285)
Central Artery / Tunnel	(1,434,654)
Outstanding direct debt	$ 13,504,384

H. Administration Debt Limit

During fiscal year 2008, the administration announced a policy that sets the annual borrowing limit at a level designed to keep debt service at a maximum of 8% of budgeted revenues. For this purpose, debt service includes principal and interest payments on all general obligation debt, special obligation gas tax debt, interest on federal grant anticipation notes, general obligation contract assistance payment obligations and budgetary contract assistance payment obligations on certain capital lease financings. Debt of the Massachusetts School Building Authority and of the Massachusetts Bay Transportation Authority that is supported by the portion of the sales tax legally dedicated to such entities is not included for purposes of this analysis, as the Commonwealth is not liable for such debt; similarly, the sales tax revenues legally dedicated to such entities are not included in the budgeted revenue projections.

In addition to keeping debt service at a maximum of 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap to not more than $125 million through fiscal 2012. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels.

The Administration will treat all debt and debt-like obligations of the Commonwealth as subject to the bond cap for purposes of developing the annual capital budget, except in limited circumstances when there is a sound policy justification for not including a particular debt issue. Debt may be excluded from the bond cap, for example, where there is a new, dedicated source of project-related revenues supporting the payment of debt service on such debt; in such cases, the dedicated revenue would also be excluded from projected budgeted revenues for purposes of determining the bond cap as described above.

The following table shows the annual bond cap, the resulting total annual debt service payment obligations and the debt service as a percentage of budgeted revenues.

Bond Cap (in millions except for percentages)

	Fiscal 2008
Bond Cap	$ 1,500
Total Debt Service Obligations	2,010
Budgeted Revenue	30,313
Debt Service as % of Budgeted Revenues	6.63%

I. Changes in Long-Term Liabilities

The following table summarizes changes in long -term liabilities for both governmental activities and business-type activities (amounts in thousands):

Changes in Long Term Liabilities - Governmental Activities: Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Tax refunds and abatements payable	$ 815,107	$ 776,694	$ 815,107	$ 776,694	$ 776,694
Accrued liabilities:					
Compensated absences	$ 443,952	468,945	443,952	$ 468,945	296,397
Claims and judgments	186,500	68,200	186,500	68,200	40,000
Prizes payable	1,411,814	1,462,407	1,411,814	1,462,407	-
Deferred loss on refunding	-	(93,573)	-	(93,573)	-
Due to component units - Central Artery / Tunnel Project	6,998,177	195,444	327,165	6,866,456	-
Due to non -component units - Central Artery / Tunnel Project	365,000	-	-	365,000	-
School construction grants payable	4,480,246	21,792	730,617	3,771,421	891,034
Contract assistance payable	89,015	70,426	89,015	70,426	-
Teachers' retirement system pension obligation	282,430	730,418	809,000	203,848	-
Other post employment benefit obligations	-	155,705	-	155,705	-
Other liabilities	3,597,226	35,672,417	35,542,584	3,727,059	3,304,005
Total Accrued Liabilities	$ 17,854,360	$ 38,752,181	$ 39,540,647	$ 17,065,894	$ 4,531,436
Bonded Debt:					
Bonds and notes payable - non MSBA	$ 18,736,961	$ 1,280,824	$ 1,283,345	$ 18,734,440	$ 1,238,048
MSBA Bonds and notes payable including premium	4,642,296	-	60,587	4,581,709	533,797
Deferred inflows of resources:					
Unamortized bond and note premiums - non MSBA	102,043	27,009	5,717	123,335	-
Other financing arrangements:					
Capital leases	378,938	302,505	297,587	383,856	37,321
Total Bonded Debt and Other financing arrangements	$ 23,860,238	$ 1,610,338	$ 1,647,236	$ 23,823,340	$ 1,809,166
Total Long-term liabilities, Governmental activities	**$ 42,529,705**	**$ 41,139,213**	**$ 42,002,990**	**$ 41,665,928**	**$ 7,117,296**

Changes in Major Long Term Liabilities - Business - Type Activities:* Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Accrued liabilities:					
Compensated absences	$ 161,493	$ 27,217	$ 19,590	$ 169,120	$ 116,609
Total Accrued Liabilities	$ 161,493	$ 27,217	$ 19,590	$ 169,120	$ 116,609
Bonded Debt:					
Bonds and notes payable, including Foundations and MSCBA	$ 1,624,617	$ 729,789	$ 327,865	$ 2,026,541	$ 61,788
Bonds and notes payable	1,624,617	729,789	327,865	2,026,541	61,788
Other financing arrangements:					
Capital leases	83,443	5,842	21,654	67,631	13,925
Total Bonded Debt and Other financing arrangements	$ 1,708,060	$ 735,631	$ 349,519	$ 2,094,172	$ 75,713
Total Long-term liabilities, Business - type activities	**$ 1,869,553**	**$ 762,848**	**$ 369,109**	**$ 2,263,292**	**$ 192,322**

* Excludes amounts due to the federal government for approximately $9.1 million, deferred inflows of resources, (mainly contributions receivable) of approxmately $100 million and other non-current liabilities in the amount of approximately $60.8 million.

Discretely Presented Component Units – Bonds and notes outstanding at June 30, 2008, net of unamortized discounts and premiums, along with unamortized losses on refundings of approximately $92,765,000, are as follows (amounts in thousands):

Discretely Presented Component Units			July 1, 2007 Beginning Balance	Increases	Decreases	June 30, 2008 Ending Balance	Due Within One Year	Long Term
Major component units:								
MBTA	0.00 - 7.00%	2009-2038	$ 5,144,127	$ 575,918	$ 659,354	$ 5,060,691	$ 243,390	$ 4,817,301
MTA	3.90 - 5.65%	2009-2039	2,344,610	-	35,088	$ 2,309,522	49,235	2,260,287
MWPAT	2.00 - 6.375%	2009-2037	3,093,155	373,058	142,710	3,323,503	152,243	3,171,260
Nonmajor component units	1.00 - 9.01%	2009-2034	863,486	317,659	140,349	1,040,796	150,845	889,951
Total bonds and notes payable			11,445,378	1,266,635	977,501	11,734,512	595,713	11,138,799
Compensated absences, net			29,612	19,615	17,647	31,580	22,972	8,608
Total long term liabilities			$ 11,474,990	$ 1,286,250	$ 995,148	$ 11,766,092	$ 618,685	$ 11,147,407

Further information on debt is found in the notes to the basic financial statements for the various component units.

J. Subsequent Bond Issuances

In September 2008, the Commonwealth sold general obligation bonds series 2008 A with a principal amount of $652,790,000 with maturities from FY10 to FY39. In addition, two series of auction rate securities sold originally in series 2007A were refunded in this issuance totaling $163,650,000. These securities originally matured on August 1, 2018, but were called on October 8, 2008 and October 10, 2008 at a price of 100%.

In November, 2008, the Commonwealth sold $544,290,000 of general obligation refunding bonds series 2008A. The bonds refunded approximately $247 million of series 1998B variable rate demand bonds that were to mature in FY2017 and $294,000,000 of lease revenue bonds that were issued by the Route 3 North Transportation Improvement Association (a discretely presented component unit.) Note 11E to the basic financial statements contains further information on commitments and the Route 3 North Transportation Improvements Association. As that lease was a capital lease from the Commonwealth, pursuant to this transaction which establishes new general obligation debt for the former lease, effectively that portion of the Commonwealth's lease to the Association will be cancelled in FY09 and the assets will be assigned back to the Commonwealth.

In December 2008, the Commonwealth sold $350,000,000 of general obligation bond anticipation notes, maturing in March of 2009. A portion of the notes are to be used to refund two maturities of City of Chelsea lease revenue select auction rate variable rate securities, originally to mature in FY23, but are to be redeemed in January and March of 2009. Payments to the City of Chelsea previously were recorded as a lease from the Commonwealth. The City of Chelsea's bonds also had an interest rate swap synthetically fixing the interest rate on those bonds held with LBHI and LBSF. The swap is subject to termination at the option of the Commonwealth. Further information on this transaction may be found in note 11E to the basic financial statements.

8. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type have fund deficits at June 30, 2008. None of these funds were in deficit due to finance-related contractual provisions and were allowed to be in deficit by General Law. The amounts are as follows (amounts in thousands):

Fund	Amount
Major governmental funds:	
Lotteries	(30,396)
Other governmental funds:	
Government Land Bank Fund	(35,097)
Motor Vehicle Safety Inspection Trust Fund	(11,303)
Capital Investment Trust Fund	(98)
Capital Improvement and Investment Trust Fund	(183)
Capital Expenditures Reserve Fund	(9,245)
Highway Captial Projects Fund	(438,212)
Local Aid Capital Projects Fund	(664)
Government Land Bank Capital Projects Fund	(15,000)

Some of the funds above are consolidated within supplementary information. The Commonwealth may fund these deficits with appropriations, or in the case of capital funds, proceeds from bond issuances or payments from third parties.

9. RETIREMENT AND OTHER POST EMPLOYMENT BENEFITS

Primary Government

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are reimbursed to the City of Boston by the Commonwealth). The members of the retirement systems do not participate in the Social Security System.

A. *Plan Descriptions*

The Massachusetts *State Employees' Retirement System* (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies, including the state police officers at the Massachusetts Port Authority and the Massachusetts Turnpike Authority. The SERS is administered by the Massachusetts State Retirement Board and is part of the reporting entity and does not issue a stand alone financial report.

The Massachusetts *Teachers' Retirement System* (MTRS) is a defined benefit PERS managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College. Consequently, the Commonwealth reports the MTRS as a single employer PERS with special funding responsibilities. The MTRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone financial report.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis. Benefits are recorded when due and payable.

Membership – Membership in SERS and MTRS as of January 1, 2008, the date of the most recent valuation, is as follows:

	SERS	MTRS
Retirees and beneficiaries currently receiving benefits	50,495	50,024
Terminated employees entitled to benefits but not yet receiving them	3,955	N/A
Subtotal	54,450	50,024
Current members	85,602	89,636
Total	140,052	139,660

B. *Benefit Provisions*

Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

C. *Funding and Contributions Policy*

The retirement systems' funding policies have been established by Chapter 32 of the Massachusetts General Laws. The Legislature has the authority to amend these policies. The annuity portion of the SERS and TRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

D. *Other Financing Situations*

The Commonwealth was financially responsible for the COLA granted to participants in various retirement systems of cities, towns and counties in fiscal year 1981 to 1997. Chapter 17 of the Acts of 1997 effective for fiscal year 1998 transferred the responsibility for funding COLAs for separate (non-teacher) retirement systems of cities and towns to their respective systems. Any future COLA granted by the Legislature to employees of these plans will be the responsibility of the individual system, assuming approval by the local board. The individual employer governments are also responsible for the basic pension benefits.

The actuarial accrued liability for COLAs as of January 1, 2008 was $376,000,000.

The policy for post-retirement benefit increases for all retirees of the SERS, TRS, for those participants who serve in the City of Boston's School Department in a teaching capacity (BTRS) and COLAs of local governments is subject to legislative approval.

The Commonwealth's responsibility to the BTRS is only for those costs based on annual certifications provided by the State – Boston Retirement System (SBRS) to the TRS. Those costs are funded in arrears. The cost of pension benefits of the other participants is the responsibility of the City of Boston. he SBRS is not administered by the Commonwealth and is not part of the reporting entity of the Commonwealth. For a complete copy of SBRS's separately issued financial statements, please contact the City of Boston Retirement Board at 617-635-4305.

The total contributions required for SERS and TRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the net pension obligation.

A table of Pension Funding Progress is presented as supplemental information on page 136 of this report.

Member contributions vary depending on the most recent date of membership:

Hire Date	% of Compensation
Prior to 1975……	5% of regular compensation
1975 - 1983……	7% of regular compensation
1984 to 6/30/1996……	8% of regular compensation
7/1/1996 to present……	9% of regular compensation except for State Police which is 12% of regular compensation
7/1/2001 to present……	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present……	An additional 2% of regular compensation in excess of $30,000

Schedule of Annual Required Contributions and Calculation Methodology

Chapter 32 of the General Laws directs the Secretary of Administration and Finance to prepare a funding schedule to meet actuarially determined requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. Under the current schedule adopted in 2004, the amortization payments are designed to eliminate the unfunded liability by fiscal year 2023 on a 4.50% increasing basis. The funding schedule as published follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

Contributions by the Commonwealth of $1,398,630,000 were made during the fiscal year ended June 30, 2008. Of this amount $69,600,000 represents budgeted payments for COLAs granted to participants in retirement systems of cities, towns and counties and approximately $105,420,000 represents payments to the City of Boston to reimburse in arrears amounts for the BTRS.

GAAP requires that pension expenditures (costs) be based on the actuarially required contribution determined using an acceptable actuarial cost method and that they be not less than:

· Normal cost plus amortization of net pension obligation cost
· Interest and amortization on any unfunded prior service costs

The following table presents the FY08 annual pension cost components and changes thereon, exclusive of cost of living adjustments (amounts in thousands):

	SERS	MTRS	Total
2008			
Annual required contribution	$ 369,866	$ 749,853	$ 1,119,719
Interest on net pension obligation	(17,764)	21,651	3,887
Adjustment to annual required contribution	8,802	(41,086)	(32,284)
Annual pension cost	360,904	730,418	1,091,322
Less: Contributions made, excluding COLAs	460,788	809,000	1,269,788
Increase (decrease) in net pension obligation	(99,884)	(78,582)	(178,466)
Net pension obligation / (asset) - beginning of year	(206,827)	282,430	75,603
Net pension obligation / (asset) - end of year	$ (306,711)	$ 203,848	$ (102,863)
2007			
Annual pension cost	$ 431,074	$ 765,293	$ 1,196,367
Percentage of annual pension cost contributed	101%	98%	99%
Net pension obligation / (asset) - end of year	$ (206,827)	$ 282,430	$ 75,603
2006			
Annual pension cost	$ 443,596	$ 781,001	$ 1,224,597
Percentage of annual pension cost contributed	96%	93%	94%
Net pension obligation / (asset) - end of year	$ (202,291)	$ 264,137	$ 61,846

E. ***Funded Status and Funding Process***

The funded status of SERS and MTRS as of January 1, 2008, the most recent actuarial valuation date, is as follows (dollar amounts in thousands except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll *	UAAL as a % of Covered Payroll *
State Employees Retirement System						
Actuarial Valuation as of January 1, 2008	$ 20,400,656	$ 22,820,502	$ 2,419,846	89.4%	$ 4,574,233	52.9%
Teachers' Retirement System						
Actuarial Valuation as of January 1, 2008	$ 22,883,553	$ 30,955,504	$ 8,071,951	73.9%	$ 5,163,498	156.3%

* The covered payroll amount approximate the employer payroll

F. ***Additional Actuarial Information***

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the basic financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation is as follows:

- The annual required contribution for 2008 was determined as part of the January 1, 2008 actuarial valuation using the entry age normal cost method.
- The actuarial assumptions included (a) 8.25% investment rate of return, (b) a 3.5% interest rate credited to the annuity savings fund and (c) a 3% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.5% to 10% depending on group and length of service.
- The assumptions do not include postretirement benefit increases, which are taken into account when granted under amendments to General Laws.
- The actuarial value of assets was determined using various techniques that smooth the effects of short-term volatility in the market value of investments, with a phased – in approach. Under this approach, 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years ago etc, so that 100% of gains and losses occurring five years ago are recognized. The actuarial value of assets is adjusted if necessary in order to remain between 90% and 110% of market value.
- The remaining amortization period for the unfunded pension liability at January 1, 2008 was 15 years.

On October 30, 2008, in order to implement voluntary budget reductions and address the remainder of budgetary deficiencies, the Commonwealth enacted supplemental budget legistlation including an extension of the Commonwealth's pension funding schedule from 2023 to 2025.

G. ***Commonwealth Post Employment Obligations Other than Pensions (OPEB)***

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care / benefit costs which are comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

The Group Insurance Commission (GIC) of the Commonwealth manages the Commonwealth's defined benefit OPEB plan as an agent multiple employer program including the Commonwealth and 370 municipalities and other non-Commonwealth governmental entities. These entities that participate in the GIC are responsible for paying premiums at the same rate to the GIC and therefore benefit from the Commonwealth's premium rates.

The GIC is part of the Trustees of the State Retiree Benefits Trust Fund (SRBTF). Per a subsequent act of the Legislature to the FY08 General Appropriation Act, the Trustees of the HST in addition to GIC became the Trustees of the Fund until further legislative action occurs (if any.)

The SRBTF is set up solely to pay for OPEB benefits and the cost to administer those benefits. It can only be revoked when all such health care and other non-pension benefits, current and future have been paid or defeased. GIC administers benefit payments, while the other Trustees and GIC vote on investment decisions. The FY08 General Appropriation Act transferred approximately $343 million to the Trust and a supplemental budget transferred over $11 million in addition. Furthermore the FY08 General Appropriation Act directed the transfer of the balance in the HST to the SRBTF. The transfer from the HST to the SRBTF was approximately $329 million. Therefore, total contributions in FY08 were approximately $683 million.

Funding Policy

Employer and employee contribution rates are set in General Laws. The Commonwealth recognizes its share of the costs on an actuarial basis, which is different from when paid. The Commonwealth and participants share in benefits. As of June 30, 2008, (and as of January 1, 2008 the valuation date,) Commonwealth participants contribute 0% to 20% of premium costs, depending on the date of hire and whether the participant is active, retiree or survivor status. Normal costs paid for OPEB to retirees during FY08 totaled approximately $354 million. There are approximately 142,535 participants eligible to receive benefits at June 30, 2008. In addition to employee contributions, other contributions are from appropriations.

In July 2008, a joint legislative - administrative commission report was released recommending funding options for OPEB in addition to employee contributions and appropriations. In its report, the special commission recommends that the Commonwealth develop a strategy to pre-fund the Commonwealth's OPEB liability. The commission identifies three funding sources -- tobacco settlement funds, unanticipated budgetary surpluses and annual legislative appropriations -- and recommends funneling funds from all three sources to the SRBTF in order to address the unfunded OPEB liability. With regard to tobacco settlement funds, the commission advises a phased-in approach, whereby a specified percentage of the settlement funds (increasing from 25% of such funds in year one to 90% of such funds in year four and thereafter) would be transferred to the SRBTF. In addition to using the tobacco settlement funds, the commission further recommends that the Commonwealth allocate 50% of any unanticipated surplus funds in a budget surplus year to the SRBTF. Finally, the commission recommends that annual appropriations to the SRBTF be included in each annual budget in a similar manner to pensions so as to eliminate the unfunded liability by 2038. The fiscal 2009 budget does not include any of the special commission's recommendations for addressing the Commonwealth's OPEB liability. Many of the recommendations will require separate legislation.

Annual OPEB Cost and Net OPEB Obligation, Funded Status and Funding Progress

The Commonwealth and the MSBA are not required to contribute the actuarially determined annual required contribution (ARC) under the provisions of Statement No. 45 under current general laws. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For fiscal year 2008, the Commonwealth and MSBA's annual OPEB contribution of approximately $702 million for the GIC was less the ARC. The Commonwealth's annual OPEB cost, the percentage of annual OPEB cost contributed to the SRBTF and the net OPEB obligation for

the Commonwealth for fiscal year 2008 is as follows from the valuation calculated as of January 1, 2006 (amounts in thousands):

2008	SRBTF
Annual required contribution	$ 839
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	839
Less: Contributions made	(683)
Increase (decrease) in net OPEB obligation	156
Net OPEB Obligation as reported at beginning of year	-
Net OPEB obligation / (asset) - end of year	$ 156

The most recentend actuarial was performed as of January 1, 2008. The present value of benefits derived from that valuation is estimated to be approximately $11,649,100,000 as of June 30, 2008. The following details that the results of the January 1, 2008 calculation and its UAAL (amounts in thousands, except for percentages):

Actuarial accrued liability - June 30, 2008 (initial year)	$ 11,649
Funded OPEB plan assets	329
Unfunded acturial accrued liability (UAAL) as of June 30, 2008	$ 11,320
Funded ratio (actuarial value of assets ÷ UAAL)	2.8%
Covered payroll of active participants	TBD
UAAL as a percentage of covered payroll	TBD

The MSBA's Actuarial Accrual Liability as of June 30, 2008 is less than two thousand dollars. No contribution was made by the MSBA during FY08.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the SRBTF and the annual required contributions of the Commonwealth are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Commonwealth and those non-Commonwealth governments that participate in GIC) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs on a premium basis between the Commonwealth and those non-Commonwealth governments that participate in GIC to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2006 actuarial valuation, which was used to determine the ARC for 2008 the projected unit credit cost method was used. The actuarial assumptions included a 6.4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10.5 percent initially, reduced by decrements to an ultimate rate of 5 percent after twelve years. Administrative expenses are expected to rise 5 percent per annum. The actuarial value of the SRBTF assets was determined using the actual balance in this first year of full operations, but it is expected that techniques that spread the effects of short-term volatility in the market value of investments over a five-year period will be used in the future. The Commonwealth's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis for a period of thirty years, increasing at a rate of 4.5 percent per year, the same rate as the projected salary increases.

A schedule of funding progress for OPEB is presented as RSI on page 137.

10. LEASES

Primary Government

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. Lease agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature.

The Colleges and the University lease real property and equipment under numerous operating lease agreements for varying terms.

The following schedule summarizes future minimum payments under non-cancelable leases for governmental activities and for the Colleges and University – reported as a business-type activity, for the fiscal year ended June 30, 2008 (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities					Business - Type Activities			
	Capital Leases		Operating	MSBA Operating	Governmental Activities	Capital Leases		Operating	Business -Type Activities
	Principal	Interest	Leases	Leases	Total	Principal	Interest	Leases	Total
2009	$ 13,621	$ 4,182	$ 125,201	$ 671	$ 143,675	$ 13,925	$ 2,575	$ 20,084	$ 36,584
2010	13,014	3,994	101,522	689	119,219	12,627	2,053	18,223	32,903
2011	10,430	3,200	74,679	706	89,015	9,427	1,604	15,410	26,441
2012	7,910	2,429	59,061	724	70,124	7,533	1,288	13,423	22,244
2013	5,567	1,709	39,024	742	47,042	7,529	952	12,508	20,989
2014 - 2018	13,574	4,166	113,921	1,143	132,804	10,704	2,331	58,804	71,839
2010 - 2023	13,149	4,035	55,100	-	72,284	3,104	1,241	1,351	5,696
2024 - 2028	6,476	1,987	46,597	-	55,060	2,782	294	1,208	4,284
2029 - 2033	-	-	46,201	-	46,201	-	-	39	39
Total lease obligations	83,741	25,702	661,306	4,675	775,424	67,631	12,338	141,050	221,019
Lease to Route 3 North, a discretely presented component unit	300,115	251,252	-	-	551,367	-	-	-	-
Subtotal	383,856	276,954	661,306	4,675	1,326,791	67,631	12,338	141,050	221,019
Less: current portion:	(37,321)	(19,249)	(125,201)	(671)	(182,442)	(13,925)	(2,575)	(20,084)	(36,584)
Long - term lease obligations	$ 346,535	$ 257,705	$ 536,105	$ 4,004	$ 1,144,349	$ 53,706	$ 9,763	$ 120,966	$ 184,435

Subsequent to year end, as part of the Commonwealth's $544 million general obligation refunding bonds series 2008A, $294 million of leave revenue bonds that were issued by the Route 3 North Transportation Improvement Association (a discretely presented component unit) were refunded. Because of this action, the Commonwealth's capital lease commitment will be reduced by a similar amount so that the remainng lease payments due to Route 3 North would be approximately $35 million of principal, of which approximately $4 million of principal would be due in FY09. Further information on this transaction may be found in notes 7 and 11E to the basic financial statements.

11. COMMITMENTS

A. ***Primary Government***

The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2008, totaling $955,340,000.

The MBTA's Forward Funding legislation of 1999 provides for the MBTA to issue general obligation, revenue or other debt secured by a pledge or conveyance of all or a portion of revenues, receipts or other assets or funds of the MBTA. Accordingly, all MBTA debt issued after this legislation is not backed by the full faith and credit of the Commonwealth.

Additional commitments of the Commonwealth remain for the University of Massachusetts Building Authority and the Massachusetts State College Building Authority. As of June 30, 2008, the University of Massachusetts Building Authority has committed debt of approximately $999 million, of which approximately $156 million is guaranteed by the Commonwealth. The

Massachusetts State College Building Authority has approximately $554 million of outstanding debt, of which approximately $50 million is guaranteed by the Commonwealth.

B. ***Saltonstall Building***

The MDFA was authorized in legislation to undertake redevelopment of the Saltonstall State Office Building (Building) and its surrounding area. Under the provisions of MDFA's bond authorization, the Building is to be leased by the MDFA for a lease term of up to 50 years with extension terms permitted for an aggregate 30 more years. The MDFA renovated the Building leased half of it back to the Commonwealth for office space and related parking for a comparable lease term. The remainder of the Building and surrounding area has been redeveloped as private office space, housing and retail establishments. The Commonwealth is obligated for future lease payments for space it rents.

However, this obligation is not a general obligation or a pledge of credit of the Commonwealth. Though MDFA's bonds are revenue obligations, with pledges of the public and private lease payments, the Commonwealth's lease payments are due upon occupancy and are subject to annual appropriation. The Commonwealth has commenced occupancy of the Building.

C. ***Other Construction Commitments***

At June 30, 2008, the Commonwealth had commitments of approximately $787.9 million related to ongoing construction projects.

D. ***Contractual Assistance to Authorities***

The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as (a) general obligation contract assistance liabilities, (b) budgetary contractual assistance liabilities or (c) contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

General obligation contract assistance liabilities arise from statutory requirements for payments by the Commonwealth to the Massachusetts Water Pollution Abatement Trust, the Massachusetts Turnpike Authority and the MDFA that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds. Such liabilities constitute a pledge of the Commonwealth's credit for which a two-thirds vote of the Legislature is required.

During FY08 a law was enacted amending a 2006 law authorizing an "infrastructure investment incentive" program, known as "I-Cubed." The amendment, among other things, clarifies the manner in which the program is to be financed and the security for the related bonds. Under the program, up to $250 million of public infrastructure improvements to support significant new private developments may be financed by bonds issued by the MDFA that will be secured by and payable from a general obligation pledge of contract assistance from the Commonwealth. Until a related new private development is completed and occupied, the developer's property will be assessed by the municipality in amounts equal to the debt service cost on the bonds to reimburse the Commonwealth for such cost. After each phase of the private development is completed and occupied, the municipality will be required to reimburse the Commonwealth for any portion of the debt service cost on the bonds that is not covered by new state tax revenues generated from the related private development. The municipality's reimbursement obligation will be secured by a general obligation pledge of the municipality, a local aid intercept and a reserve

fund which must be funded in an amount equal to or greater than two years of debt service on the bonds. The obligation of the municipality ends when the Commonwealth has collected revenues sufficient to pay principal and interest payments to date plus all remaining principal payments due. Regulations are still being developed pursuant to this legislation, and no such bonds have yet been issued.

Subsequent to year end legislation was enacted including an authorization to finance up to $43 million of the costs of a parkway at the former South Weymouth naval air base to support the development of the former base. Similar to the I-Cubed program financing model, the bonds to finance the parkway would be issued by MassDevelopment and would be secured and payable from a general obligation pledge of contract assistance from the Commonwealth. In the event that the new state tax revenues generated from the new private development are less than the debt service cost on the bonds, the South Shore Tri-Town Development Corporation, a public entity with municipal taxing and other powers over the geographic area of the former base, would be required to reimburse the Commonwealth for any such shortfall. The legislation provides that such payment obligations of the Corporation be secured by a general obligation pledge of the Corporation.

Budgetary contract assistance liabilities do not constitute a pledge of the Commonwealth's credit. Contingent liabilities relate to debt obligations of independent authorities and agencies of the Commonwealth, or payment obligations of such entities on hedging transactions related to such debt, that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has some kind of liability if expected payment sources do not materialize. These liabilities consist of guaranties and similar obligations with respect to which the Commonwealth's credit has been or may be pledged. Under legislation approved by the Governor on August 11, 2008, the Commonwealth may pledge its credit to guarantee payment obligations of the Massachusetts Turnpike Authority with respect to certain hedging transactions or provide financial support subject to annual appropriation and without a pledge of the Commonwealth's credit. The same legislation authorizes the Commonwealth to provide credit support to the Turnpike Authority in connection with the issuance of certain refunding bonds, subject to annual appropriation and without a pledge of the Commonwealth's credit. In addition, the Commonwealth has certain statutorily contemplated payment obligations with respect to which the Commonwealth's credit has not been pledged, as in the case of the Commonwealth's obligation to replenish the capital reserve funds securing certain debt obligations of the Massachusetts Housing Finance Agency and the Commonwealth's obligation to fund debt service, solely from moneys otherwise appropriated for the affected institution, owed by certain community colleges and state colleges on bonds issued by the Massachusetts Health and Educational Facilities Authority and the Massachusetts State College Building Authority.

By the virtue of the bankruptcy filing by Lehman Brothers Holdings Inc ("LBHI") as described in Note 7 to the financial statements, the interest rate swaps with Lehman Brothers Special Financing ("LBSF") are subject to termination at the option of the Turnpike Authority. The Turnpike Authority would owe a termination payment on each of these swaptions if there were to be terminated at this time. The Turnpike Authority is evaluating its options and has made no decision at this time regarding the Lehman swaptions. This action could trigger the contingent guarantee discussed above.

E. ***Route 3 North Transportation Improvements Association, Commonwealth Lease Revenue Bonds, and Other***

Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds. During FY00, the Route 3 North Transportation Improvements Association issued approximately $394 million of lease revenue bonds to finance the reconstruction and widening of a portion of state Route 3 North. During FY02, the Route 3 North Transportation Improvements Association issued approximately $313 million of additional lease revenue bonds, $306 million of which were issued as refunding bonds. In connection with the financing, the Commonwealth leased the portion of the highway to be improved to the Association, and the Association leased the property back to the Commonwealth pursuant to a sublease. Under the sublease, the Commonwealth is obligated to make payments equal to the debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. During FY07, the Commonwealth sold general obligation bonds to refund approximately $53 million of the lease revenue bonds. As of June 30, 2008, the Route 3 North Transportation Improvements Association had approximately $377 million of such lease revenue bonds outstanding, of which approximately $83 million are fixed-rate bonds and $294 million are variable-rate bonds with an associated interest rate swap agreement. Subsequent to year end, on November 19, 2008, the Commonwealth issued general obligation bonds to refund the $294 million of variable-rate bonds that had been issued by the Route 3 North Transportation Improvements Association in FY02 and to replace them with fixed-rate Commonwealth bonds. The variable-rate bonds and the associated swap agreement were insured by Ambac. If Ambac were to be downgraded below certain thresholds specified in the swap agreement, the agreement could become subject to termination at the option of the counterparty, triggering termination costs (recently estimated at approximately $47 million) for which the Commonwealth would be liable under the sublease. In connection with the recent credit deterioration and ratings downgrades of Ambac, there have been failed remarketings with respect to the variable-rate bonds, and the counterparty under the associated interest rate swap agreement exercised its right to make variable payments to the Association related to a taxable index rather than to pay the Association's variable interest costs on the bonds. The net effect of this change is to expose the Association to basis risk and potentially to increased costs, for which the Commonwealth is liable under the sublease. For FY08, such increased costs amounted to approximately $1 million, which were funded by supplemental appropriations approved by the Governor on August 8, 2008. Such increased costs have continued in FY09. For the 30-day period ended on July 15, 2008, such increased costs amounted to approximately $1.3 million. Because of the refunding of November 19, 2008, the associated swap agreement has been assumed by the Commonwealth (without Ambac insurance) and assigned to outstanding Commonwealth variable-rate bonds that were previously unhedged. The related debt service deposit agreements were terminated. In 2005, the developer of the project submitted a request for equitable adjustment pursuant to the development agreement between the developer, the Executive Office of Transportation and Construction and the Massachusetts Highway Department. As of June 11, 2008, the parties reached a settlement in principle with the developer. On June 23, 2008, the developer filed for bankruptcy protection. Subsequent to year end, on August 8, 2008, the Commonwealth, the developer and the sureties executed a settlement agreement resolving all claims on the project. Due to the developer's bankruptcy filing on June 23, 2008, however, the developer will not be able to agree to the settlement unless the Bankruptcy Court approves it and no appeal is taken. If final approval is not obtained from the Bankruptcy Court, the settlement agreement will be null and void, except to the extent the parties further agree in writing.

City of Chelsea Commonwealth Lease Revenue Bonds. By the virtue of the bankruptcy filing by LBHI as described in Note 7 to the financial statements, the interest rate swaps with LBSF are subject to termination at the option of the Commonwealth. The Commonwealth is currently considering structuring alternatives including assigning these swaps to different counterparties or refunding the bonds.

F. ***MSBA***

The MSBA has estimated the amount of outstanding Waiting List commitments at June 30 to be approximately $793 million.

12. CONTINGENCIES

A number of lawsuits are pending or threatened against the Commonwealth, which arise from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the Attorney General estimates the liability to be approximately $27,000,000 to be paid during FY09.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 2008 is estimated to be $271,080,000, of which approximately $38,020,000 is expected to be paid during FY09.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally contingent upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. On March 20, 2008, the Centers for Medicare and Medicaid Services (CMS) issued a notice of disallowance of approximately $87 million in federal financial assistance. As the basis for the disallowance, CMS cited the final finding of an audit conducted by the Office of the Inspector Geneal of the U.S. Department of Health and Human Services regarding Medicaid targeted case management claims for children in the target group of abused or neglected children involved with the Department of Social Services. The Commonwealth is appealing the CMS disallowance to the Departmental Appeal Board of the U.S. Department of Health and Human Services.

Chapter 200A of the Massachusetts General Laws, the Commonwealth's Abandoned Property Law, requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets are to be remitted to the General Fund each June 30, where it is included as miscellaneous revenue. Amounts remitted during FY08 totaled approximately $81,077,000. A portion of accumulated claims since the law's enactment represent a contingency, because claims for refunds can be made by the owners of the property.

A. ***Tobacco Settlement***

A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the Commonwealth.

The MSA called for, among other things, annual payments to the states in perpetuity. These payments have been estimated to total more than $200 billion over the first 25 years, subject to various offsets, reductions, and adjustments.

In FY08, the Commonwealth received approximately $288,490,000 or 87% of the estimated amounts shown in the MSA. All received amounts were transferred to the General Fund.

Amounts received in FY08 continued to be less than had previously been projected as payments under the MSA. The Commonwealth's allocable share of the base amounts payable under the MSA is approximately 4.05%. The Commonwealth's allocable share of the base amounts under the agreement through 2025 is nearly $7.6 billion, subject to adjustments, reductions and offsets. However, in pending litigation, tobacco manufacturers are claiming that because of certain developments, they are entitled to reduce future payments under the MSA, and certain manufacturers withheld payments to the states due in FY06 and FY07. The Commonwealth continues to pursue legal action to compel the payment of these additional funds and to obtain a legal determination that the Commonwealth is immune from the claimed downward adjustment to its settlement payments.

In FY04, a Suffolk Superior Court jury rejected the claims of the Commonwealth's private tobacco attorneys that they should be paid a fee amounting to 25% of the Commonwealth's tobacco settlement money. The jury awarded the plaintiffs 10.5% of the amount the Commonwealth receives under the MSA through 2025. To date, however, the attorneys have received more than 10.5% of what the Commonwealth has received under the MSA. As of June 30, 2008, the Commonwealth owes nothing under the jury award. Whether the Commonwealth will in the future be required to pay any sum on private counsel's claim will depend on the actual payments received by the Commonwealth under the MSA through 2025, as well as on the amounts the attorneys receive through the arbitration payments.

B. ***Workers' Compensation and Group Insurance Liabilities***

Workers' Compensation is managed as part of the course of the Commonwealth's general operations. No separate fund for workers' compensation is provided for in Massachusetts General Laws. Claims for compensation are not separately insured and are funded by the Commonwealth only when incurred. Such losses, including estimates of amounts incurred, but not reported are included as accrued liabilities in the accompanying financial statements when the loss is incurred. The Commonwealth assumes the full riskof claims filed under a program managed by the Human Resources Division. For personal injury, Massachusetts General Laws limit the risk assumed by the Commonwealth to $100,000 per occurrence, in most circumstances.

Based on actuarial calculations as of June 30 2008, discounted, the Commonwealth is liable for unfunded claims and incurred but not reported claims totaling approximately $274 million, which is reported in accrued liabilities in the Governmental Activities.

Changes in the Commonwealth's liability relating to workers' compensation claims in FY08 and FY07 were (amounts in millions):

	FY08	FY07
Claim liability, beginnng of year	$ 312.6	$ 316.6
Increase in liability estimate	10.7	45.6
Payments and decreases in liability estimate	(49.8)	(49.6)
Claims liability, end of year	$ 273.5	$ 312.6

The Group Insurance Commission (GIC), a department of the Commonwealth, manages health insurance claims of the Commonwealth's active and retired employees. The Commonwealth is self-insured and various health insurance providers provide health care services to the employees. The accrued liability is estimated based on data provided to the GIC by the insurance companies who participate in the self-insured plans.

Based on GIC estimates, the Commonwealth is liable for an amount of $69.5 million, net of the employees' reserve of $37.5 million. Changes in the Commonwealth's liability relating to Group Insurance claims in FY08 and FY07 were (amounts in millions):

	FY08	FY07
Claim liability, beginnng of year	$ 62.5	$ 77.0
Increase in liability estimate	894.0	1,007.8
Payments and decreases in liability estimate	(849.5)	(1,022.3)
Claims liability, end of year	$ 107.0	$ 62.5

C. *Central Artery/Tunnel Project*

Owner Controlled Insurance Program (OCIP)

The Commonwealth of Massachusetts has assumed responsibility for providing worker's compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery/Tunnel Project, (Project) by establishing an OCIP. The Highway Department established a trust managed and administered by an independent third party (trustee) to protect a portion of the assets set aside with the insurance carrier to fund project liabilities.

The amounts in the Trust are restricted by its terms and cannot be used for other purposes. The withdrawals, other than those to cover costs specified by the Trust Agreement, require mutual consent. During FY03 federally funded fund assets were replaced by state assets and therefore are no longer restricted as to the ultimate distribution at the end of the Project. The insurance coverage provided by the Commonwealth ended on October 31, 2007, except for general liability coverage, which continues to apply to occurrences through November 1, 2010. The Project's OCIP activity is reported as a minor governmental (capital project) fund. The "Claims and Judgements" liability reported within the fund represents the Project's liabilities as estimated by an independent actuary for incurred losses projected to their ultimate value as of the end of the fiscal year for FY06. The remaining liability is reported as part of the non-current liability in the statement of net assets.

As of June 30, 2008, the OCIP has accumulated approximately $111,506,000 in assets that consist of approximately $98,568,000 in cash and investments in funds held by the trustee of the program, approximately $12,939,000 in interest income receivable. Net assets at year – end of approximately $48,864,000 were restricted for workers' compensation and general liability claims.

The OCIP's assets are to be available to pay the obligations under the programs. These insurance programs are presently structured as retrospectively rated insurance programs with retained loss limits of $1,000,000 per claim, $3,000,000 per occurrence for worker's compensation and $2,000,000 per contractor, $6,000,000 per occurrence for general liability coverage. The Commonwealth is responsible for loss costs up to these amounts.

At the request of the Commonwealth on March 10, 2008, the OCIP's insurance company committed to transfer project surplus funds that are not required to meet unpaid liabilities based on the June 30, 2007 actuarial projection. The insurance company's commitment anticipates that a total of $43,600,000 will be withdrawn from the OCIP in installments through April 1, 2010. The first such transfers in the amount of $13,300,000 was disbursed from the OCIP on June, 30, 2008. In FY09, it is anticipated that $16,100,000 will be disbursed and in FY10, the remaining $14,200,000 will be withdrawn. Management of the OCIP expects that the balance remaining in the OCIP after the withdrawls are completed will be sufficient to fund unpaid liabilities based on the June 30, 2008 update.

The estimated Claims and Judgements liability for the OCIP for occurrences through June 30, 2008 is approximately $41,200,000. Current claims payable approximates $13,000,000, which is presented in a governmental fund, while the remaining non-current claims payable of approximately $28,200,000 is presented on the statement of net assets. This amount is based on the results of a review performed by an independent actuarial firm retained by the Project, and it represents an estimate of liabilities incurred based on past experience for claims reported and not reported as of June 30, 2008.

Subsequent to year end, the OCIP's insurance carrier, American International Group (AIG) faced a serious liquidity roblem stemming from credit default swaps on mortgage – backed securities issued by AIG Financial Services, a unit separate from AIG's insurance business. In order to deal with the problem, AIG announced on September 24, 2008, that it planned to sign an agreement with the Federal Reserve Bank of New York that will provde an $85 billion revolving facility under Section 13(3) of the Federal Reserve Act. Insurance regulators in both the Commonowealth and the State of New York affirmed the sound financial condition of AIG's insurance company subsidiearies, which are currently rated by A.M. Best Company as "A-negative." The rating remains "under review" by Best's. Based on this information, management believes that the insurance provided by the insurance company will respond to new and unpaid claims liabilities. Further management believes that the OCIP's assets and investments are adequately protected by the current agreements with the company and the custodial agreements with the OCIP's trustee.

D. *Other Claims & Judgements*

The following amounts were recognized for claims and judgements as of June 30, 2008 (amounts in thousands):

	2008	2007
Unpaid claims, beginning of year……	$ 186.5	$ 195.2
Incurred claims……	18.7	18.1
Claim payments and reductions……	137.0	26.8
Unpaid claims end of year……	$ 68.2	$ 186.5

13. COMPONENT UNITS AND DETAILS OF DEPARTMENTS AND ENTITIES THAT ARE SEPARATELY AUDITED

Component Units and Details of Departments and Entities that are separately audited

The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 31 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Details of those entities' operations can be found in those entities' basic financial statements and notes to those entities' basic financial statements.

The following entities are presented in the basic financial statements (all having a June 30, 2008 fiscal year end) (entities marked with an * are not legally separate from the Commonwealth but have separately audited financial statements). Entities that are marked with a § also were not audited in accordance with *Governmental Auditing Standards* as promulgated by the Comptroller General of the United States.

Entities Audited by KPMG LLP:

The Massachusetts School Building Authority (MSBA)
The Pension Reserves Investment Trust Fund (PRIT)
*The Massachusetts State Lottery Commission
*The Health Care Security Trust Account (HST)
The Massachusetts Bay Transportation Authority (MBTA)
The Massachusetts Turnpike Authority (MTA)
The Massachusetts Water Pollution Abatement Trust (MWPAT)
Commonwealth Health Insurance Connector Authority
Brockton Area Transit Authority

*Community Colleges:
- Bunker Hill Community College
- Greenfield Community College
- Holyoke Community College
- Middlesex Community College
- Springfield Technical Community College

Entities Audited by Other Auditors:

*The Massachusetts Municipal Depository Trust (MMDT)
*The Commonwealth of Massachusetts Owner Controlled Worker's Compensation and General Liability Insurance Program (OCIP)
*The University of Massachusetts System

*Community Colleges (in addition to the five Community Colleges audited by KPMG LLP, above):

Berkshire Community College
Bristol Community College
Cape Cod Community College
Massasoit Community College
Massachusetts Bay Community College
Mount Wachusett Community College
Northern Essex Community College
North Shore Community College
Quinsigamond Community College
Roxbury Community College

Community College component units:

Berkshire Community College Foundation
Bristol Community College Foundation
Bunker Hill Community College Foundation
Cape Cod Community College Educational Foundation, Inc.
Greenfield Community College Foundation, Inc.
Holyoke Community College Foundation
Massachusetts Bay Community College Foundation, Inc.
Massasoit Community College Foundation
Middlesex Community College Foundation, Inc.
North Shore Community College Foundation
Springfield Technical Community College Foundation
The Mount Wachusett Community College Foundation, Inc.
The Northern Essex Community College Foundation, Inc.
The Quinsigamond Community College Foundation, Inc.
The Roxbury Community College Foundation, Inc.

*State Colleges

Bridgewater State College
Fitchburg State College
Framingham State College
Massachusetts College of Art
Massachusetts Maritime Academy
Massachusetts College of Liberal Arts
Salem State College
§Westfield State College
Worcester State College

State college component units:

Bridgewater State College Component Units:
The Bridgewater State College Foundation
The Bridgewater Alumni Association of Bridgewater State College
Fitchburg State College Foundation, Inc.
Framingham State College Foundation, Inc.
Massachusetts College of Art Foundation, Inc.
Massachusetts College of Liberal Arts Foundation, Inc.
The Massachusetts Maritime Academy Foundation, Inc.
Salem State College Component Units:
The Salem State College Foundation, Inc.
Salem State College Assistance Corporation
Westfield State College Foundation, Inc.
Worcester State Foundation

Massachusetts Convention Center Authority (MCCA)

§Massachusetts Development Finance Agency (MassDevelopment)

§Massachusetts Technology Park Corporation (MTPC)

Economic Development Entities (7 separate entities) including:

Massachusetts Community Development Finance Corporation (MCDFC)
Commonwealth Corporation
§Community Economic Development Assistance Corporation (CEDAC)

Massachusetts Life Sciences Center
§Massachusetts Housing Partnership (MHP)
Route 3 North Transportation Improvement Association (R3N)
§Commonwealth Zoological Corporation (Zoo)

Regional Transit Authorities (14 separate entities in addition to the Brockton Area Regional Transit Authority above that is audited by KPMG LLP) including:

Berkshire Regional Transit Authority
Cape Ann Transit Authority
Cape Cod Regional Transit Authority
Franklin Regional Transit Authority
Greater Attleboro / Taunton Regional Authority
Lowell Regional Transit Authority
Martha's Vineyard Transit Authority
Merrimack Valley Regional Transit Authority
Metrowest Regional Transit Authority (new for FY08)
Montachusett Regional Transit Authority
Nantucket Regional Transit Authority
Pioneer Valley Regional Transit Authority
Southeastern Regional Transit Authority
Worcester Regional Transit Authority

Descriptions of Major and Blended Component Units and Entities that are not Legally Separate from the Commonwealth:

Blended Component Units – Blended component units are entities that are legally separate from the Commonwealth but are so related to the Commonwealth, that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The net assets and results of operations of the following legally separate entities are presented as part of the Commonwealth's operations:

The Massachusetts School Building Authority (MSBA) is charged with administering the Commonwealth's school construction and renovation program. The MSBA's sole revenues are from dedicated sales taxes from the Commonwealth. The MSBA's bonded debt is secured by these sales tax revenues. Any deficiency in the sales tax revenue is born by the Commonwealth up to a minimum floor that is adjusted annually by Commonwealth statute until FY11. Expenditures by the MSBA are made on behalf of the Commonwealth as a successor to a long-standing Commonwealth program of school construction. The MSBA's operations and results thereon are blended with the Commonwealth and as such are reported as a major governmental fund.

The Pension Reserves Investment Trust Fund (PRIT) is the investment portfolio for the pension assets of the Commonwealth and as such, is presented as a blended component unit. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board. Certain portions of PRIT's net assets totaling approximately $5.7 billion relate to holdings on behalf of cities and towns that participate in the Pool and are reported as an external investment trust within the fiduciary fund type.

The Massachusetts Municipal Depository Trust (MMDT) is an investment pool of the Commonwealth and its political subdivisions. The various local governments and other political subdivisions share of net assets is approximately $4.6 billion at June 30, 2008, and is reported as an external investment trust within the fiduciary fund type.

The following entities are audited separately from the Commonwealth but are not legally separate from the Commonwealth:

The Massachusetts State Lottery Commission, a division of the Office of the State Treasurer and Receiver – General, operates the Commonwealth's lottery. The net assets of the Commission and results thereon are presented as a major governmental fund.

The Health Care Security Trust Account (HST) is the long - term investment account of the Health Care Security Trust, a nonmajor governmental fund. The HST is the recipient of tobacco settlement remittances to the Commonwealth. The HST is managed by a board of trustees, which supervises the investment and reinvestment of monies received into the HST. The HST utilizes certain resources and staff of PRIM.

The Commonwealth of Massachusetts Owner Controlled Worker's Compensation and General Liability Insurance Program (OCIP) provides worker's compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery /

Tunnel Project (CA/T). The OCIP is managed by the Massachusetts Highway Department. The net assets ofthe program and results of operations are presented as part of the Commonwealth's other governmental fund activity.

The institutions of higher education of the Commonwealth are also not legally separate from the Commonwealth and have operations and net assets that are presented as part of the Commonwealth's business – type activities. These systems include:

The University of Massachusetts System including the University of Massachusetts Building Authority, and the Worcester City Campus Corporation. The Worcester City Campus Corporation includes a not-for-profit subsidiary, the Worcester Foundation for Biomedical Research, Inc. The University System also includes discretely presented component units, the University of Massachusetts Dartmouth Foundation, Inc and the University of Massachusetts Foundation, Inc.

The State and Community College System including the 9 state and 15 community colleges located throughout the Commonwealth and the Massachusetts State College Building Authority (a blended component unit of the state college system).

Other Discretely Presented Component Units that are Separately Audited – Discrete component units are entities which are legally separate (often called Authorities) are financially accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The component units column of the basic financial statements includes the financial data of the following entities:

Major component units:

The Massachusetts Bay Transportation Authority (MBTA) provides mass transit facilities within the Greater Boston metropolitan area, comprising 175 cities and towns.

The Massachusetts Turnpike Authority (MTA) operates the Massachusetts Turnpike and the Metropolitan Highway System.

The Massachusetts Water Pollution Abatement Trust (MWPAT) provides a combination of federal and Commonwealth funds for water and sewer projects around the Commonwealth as operator of the Commonwealth's State Revolving Fund.

Dragon Boat Festival

Traditionally held on the fifth day of the fifth moon on the lunar calendar (late May to mid June on the solar calendar), the Dragon Boat Festival commemorates the life and death of the Qu Yuan (340-278 BCE). A political leader of Chu, Qu Yuan is recognized as China's first distinguished poet. Qu Yuan lost the king's favor and was banished from his home state of Chu because of his opposition to the prevalent policy of compromise to the powerful state of Qin. In exile, he wrote the poem,

Photography courtesy of Nancy Passavant

Photography courtesy of Hong Kong Dragon Boat Festival of Boston

Photography courtesy Hong Kong Dragon Boat Festival of Boston

Photography courtesy of © Anh Đào Kolbe 2008/www.adkfoto.com

"Encountering Sorrow," which shows a great loyalty to his state and its people. In 278 BCE, Qu Yuan heard that Chu had been invaded. In despair, he drowned himself in the Mi Lo River. The people of Chu rushed to the river to rescue him. Too late to save Qu Yuan, they splashed furiously and threw zong-zi (traditional rice dumplings wrapped in bamboo leaves) into the river as a sacrifice to his spirit and to keep the fish away from his body.

Photography courtesy of Joe Liftik

Required Supplementary Information Other than Management Discussion and Analysis

Combing Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget And Actual for General And Highway Funds.
Schedule of Revenue, Expenditures And Changes In Fund Balances – Statutory Basis – Budget and Actual
Explanation of Differences Between Revenues, Expenditures and Other Financing Sources for Budgetary Funds on a Budgetary Basis and GAAP Basis
Notes to Required Supplementary Information – Budgetary Reporting
Schedule of Pension Funding Progress –Last Ten Fiscal Years
Schedule of Post Employment Benefit Funding Progress – State Retiree Benefits Trust Fund

Photography courtesy of Nancy Passavant

Photography courtesy of Ron Lipof

Photography courtesy of Diane Travers

Dragon Boat Festivals are popular around the world. The first Dragon Boat Festival in the United States was held in Boston. This year's festival, which is the largest Asian American celebration in New England, drew a crowd of over 20,000. Thirty-two teams competed in four categories: open, mixed, corporate and women's. A special heat was devoted to breast cancer survivors. It also featured traditional Chinese arts and crafts by the Greater Boston Chinese Cultural Association, a Dragon and Lion Dance, martial arts, authentic Hula and Tahitian Dance, Korean Poongmul drumming, Chinese dance and music, traditional Japanese festival drumming and Asian foods.

Text from Boston's Dragon Boat Festival

Boston Carnival

In 1973 a group of Trinidadians residing in Boston came together and started the tradition of Boston's annual "Trinidad style" Carnival. This cultural activity has been the cornerstone of the community for over 35 years.

Carnival has its origins in African traditions and the street celebrations of newly freed African captives. The uniqueness of what is today called Carnival is its distinctive music, costumes and street dancing. There is a Kiddies' Carnival and a King and Queen of Carnival are crowned.

It attracts hundreds of thousands of participants and attendees. Most of them have West Indian heritage from the countries in the Caribbean archipelago from the north, Jamaica, through to the south, Guyana, in South America.

Michael C. Smith, has been shooting Boston's annual Trinidad-style Carnival for over 10 years. Fascinated by the colors, design and workmanship that is required to make these elaborate costumes a reality and the short life span of these designs, he has been determined to document this truly wonderful Trinidad-style Carnival.

Photography & Text courtesy of Michael C. Smith

Budgeted Funds

Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget And Actual

Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	General			Highway		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES AND OTHER FINANCING SOURCES						
Revenues:						
Taxes	$ 17,849,800	$ 18,848,150	$ 998,350	$ 576,100	$ 574,045	$ (2,055)
Assessments	-	288,556	288,556	-	13,628	13,628
Federal grants and reimbursements	6,419,900	6,426,929	7,029	3,600	750	(2,850)
Departmental	1,973,100	1,223,937	(749,163)	422,500	406,056	(16,444)
Miscellaneous	-	311,434	311,434	-	1,135	1,135
Total revenues	26,242,800	27,099,006	856,206	1,002,200	995,614	(6,586)
Other financing sources:						
Fringe benefit cost recovery	-	359,297	359,297	-	-	-
Lottery reimbursements	104,988	103,126	(1,862)	-	-	-
Lottery distributions	1,014,642	1,014,642	-	-	-	-
Tobacco settlement transfer	244,000	288,490	44,490	-	-	-
Operating transfers in	642,113	365,122	(276,991)	-	3,615	3,615
Stabilization transfer	315,000	315,000	-	-	-	-
Other fund deficit support	-	-	-	-	1,571,583	1,571,583
Total other financing sources	2,320,743	2,445,677	124,934	-	1,575,198	1,575,198
Total revenues and other financing sources	28,563,543	29,544,683	981,140	1,002,200	2,570,812	1,568,612
EXPENDITURES AND OTHER FINANCING USES						
Expenditures:						
Legislature	89,975	58,090	31,885	-	-	-
Judiciary	821,713	812,105	9,608	-	-	-
Inspector General	3,261	3,136	125	-	-	-
Governor and Lieutenant Governor	10,206	8,737	1,469	-	-	-
Secretary of the Commonwealth	44,081	43,865	216	-	-	-
Treasurer and Receiver-General	137,778	124,382	13,396	1,042	919	123
Auditor of the Commonwealth	19,002	18,999	3	-	-	-
Attorney General	43,437	42,916	521	481	480	1
Ethics Commission	1,641	1,629	12	-	-	-
District Attorney	98,409	98,003	406	4,462	3,951	511
Office of Campaign and Political Finance	1,194	1,170	24	-	-	-
Sheriff's Departments	294,986	291,241	3,745	539	472	67
Disabled Persons Protection Commission	2,019	2,017	2	-	-	-
Board of Library Commissioners	32,888	32,888	-	-	-	-
Comptroller	9,012	8,940	72	7	7	(0)
Administration and finance	1,516,319	1,482,131	34,188	5,862	5,836	26
Energy and environmental affairs	222,805	216,256	6,549	-	-	-
Health and human services	4,835,165	4,796,463	38,702	-	-	-
Transportation and public works	181,052	176,298	4,754	98,853	88,804	10,049
Executive Office of Education:						
Early education and care	551,474	549,880	1,594	-	-	-
Department of elementary and secondary education	512,764	485,847	26,917	-	-	-
Higher education	1,087,931	1,084,406	3,525	-	-	-
Public safety and homeland security	1,028,114	1,006,953	21,161	250,079	245,690	4,389
Housing and economic development	225,326	209,313	16,013	71	59	12
Labor and workforce development	62,097	59,515	2,582	-	-	-
Direct local aid	5,040,468	5,040,468	-	-	-	-
Medicaid	8,248,486	8,246,342	2,144	-	-	-
Pension	1,398,600	1,398,600	-	-	-	-
Debt service:						
Principal retirement	641,937	635,027	6,910	419,874	412,417	7,457
Interest and fiscal charges	436,735	431,228	5,507	400,093	389,236	10,857
Total expenditures	27,598,875	27,366,845	232,030	1,181,363	1,147,871	33,492
Other financing uses:						
Fringe benefit cost assessment	-	-	-	-	87,416	(87,416)
Operating transfers out	117,214	118,496	(1,282)	400	22,768	(22,368)
Commonwealth care transfer	789,650	1,045,863	(256,213)	-	-	-
Medical assistance transfer	251,000	376,700	(125,700)	-	-	-
State retiree benefits transfer	343,243	354,743	(11,500)	-	-	-
Stabilization transfer	-	-	-	-	-	-
Lottery deficit support	-	200,019	(200,019)	-	-	-
Transfer for Bay State Competitiveness Investment	-	-	-	-	-	-
Other fund deficit support	-	1,585,673	(1,585,673)	-	-	-
Total other financing uses	1,501,107	3,681,494	(2,180,387)	400	110,184	(109,784)
Total expenditures and other financing uses	29,099,982	31,048,339	(1,948,357)	1,181,763	1,258,055	(76,292)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(536,439)	(1,503,656)	(967,217)	(179,563)	1,312,757	1,492,320
Fund balances (deficit) at beginning of year	1,740,664	1,740,664	-	(1,296,553)	(1,296,553)	-
Fund balances (deficit) at end of year	$ 1,204,225	$ 237,008	$ (967,217)	$ (1,476,116)	$ 16,204	$ 1,492,320

Schedule of Revenues, Expenditures and Changes in Fund Balances - Statutory Basis - Budget and Actual

Budgeted Funds

Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Original Budget	Final Budget	Actual	Variance over / (under)
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes	$ 18,488,300	$ 18,488,300	$ 19,488,540	$ 1,000,240
Assessments	-	-	302,184	302,184
Federal grants and reimbursements	6,428,500	6,428,500	6,429,469	969
Departmental	2,402,400	2,402,400	1,866,898	(535,502)
Miscellaneous	89,000	89,000	409,559	320,559
Total revenues	**27,408,200**	**27,408,200**	**28,496,650**	**1,088,450**
Other financing sources:				
Fringe benefit cost recovery	-	-	359,297	359,297
Lottery reimbursements	-	104,988	103,126	(1,862)
Lottery distributions	-	1,014,642	1,014,642	-
Tobacco settlement transfer	-	244,000	288,490	44,490
Operating transfers in	2,320,843	642,213	368,854	(273,359)
Stabilization transfer	-	315,000	315,000	-
Other fund deficit support	-	-	1,593,422	1,593,422
Total other financing sources	**2,320,843**	**2,320,843**	**4,042,831**	**1,721,988**
Total revenues and other financing sources	**29,729,043**	**29,729,043**	**32,539,481**	**2,810,438**
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Legislature	89,975	89,975	58,090	31,885
Judiciary	790,634	821,713	812,105	9,608
Inspector General	3,261	3,261	3,136	125
Governor and Lieutenant Governor	9,884	10,246	8,757	1,489
Secretary of the Commonwealth	43,802	44,197	43,981	216
Treasurer and Receiver-General	217,038	138,845	125,326	13,519
Auditor of the Commonwealth	19,019	19,002	18,999	3
Attorney General	41,228	43,918	43,396	522
Ethics Commission	1,618	1,641	1,629	12
District Attorney	98,187	102,871	101,954	917
Office of Campaign & Political Finance	1,194	1,194	1,170	24
Sheriff's Departments	267,537	295,525	291,713	3,812
Disabled Persons Protection Commission	1,988	2,019	2,017	2
Board of Library Commissioners	32,854	32,888	32,888	-
Comptroller	11,913	12,261	11,910	351
Administration and finance	1,790,055	1,734,887	1,658,550	76,337
Energy and environmental affairs	229,002	235,303	227,374	7,929
Health and human services	4,838,234	4,927,339	4,872,307	55,032
Transportation and public works	185,061	281,405	266,344	15,061
Executive Office of Education:				
Early education and care	530,064	551,474	549,880	1,594
Department of elementary and secondary education	587,282	512,764	485,847	26,917
Higher education	1,063,755	1,087,956	1,084,406	3,550
Public safety and homeland security	1,180,680	1,291,783	1,265,371	26,412
Housing and economic development	283,085	267,305	247,850	19,455
Labor and workforce development	50,158	106,084	84,620	21,464
Direct local aid	5,040,468	5,040,468	5,040,468	-
Medicaid	8,221,923	8,248,486	8,246,342	2,144
Pension	-	1,398,600	1,398,600	-
Debt service:				
Principal retirement	1,055,441	1,061,811	1,047,444	14,367
Interest and fiscal charges	843,558	836,828	820,464	16,364
Total expenditures	**27,528,898**	**29,202,049**	**28,852,938**	**349,111**
Other financing uses:				
Fringe benefit cost assessment	-	-	90,716	(90,716)
Commonwealth care transfer	-	789,650	1,045,863	(256,213)
Medical assistance transfer	-	251,000	376,700	(125,700)
State retiree benefits	-	343,243	354,743	(11,500)
Operating transfers out	-	117,614	142,275	(24,661)
Stabilization transfer	-	315,000	315,000	-
Lottery deficit support	-	-	200,019	(200,019)
Transfer for Bay State Competitiveness Investment	-	63,000	63,000	-
Other fund deficit support	-	-	1,593,422	(1,593,422)
Total other financing uses	**-**	**1,879,507**	**4,181,738**	**(2,302,231)**
Total expenditures and other financing uses	**27,528,898**	**31,081,556**	**33,034,676**	**(1,953,120)**
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	**2,200,145**	**(1,352,513)**	**(495,195)**	**857,318**
Fund balances at beginning of year	2,901,015	2,901,015	2,901,015	-
Fund balances at end of year	**$ 5,101,160**	**$ 1,548,502**	**$ 2,405,820**	**$ 857,318**

See note to required supplementary information-Budgetary Reporting

Explanation of Differences between Revenues, Expenditures and Other Financing Sources (Uses) for Budgetary Funds on a Budgetary Basis and GAAP Basis (in thousands):

	General	Highway
REVENUES		
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	$ 27,099,006	$ 995,614
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:		
Tax revenue	113,538	(5,383)
Federal reimbursements and other receivables	52,236	(48)
Reclassifications:		
Higher education revenue is reclassified for GAAP reporting	(73,117)	-
Budgetary Stabilization Fund and Administrative Control Funds revenues are reclassified to the General Fund for GAAP reporting	328,546	-
Total budgeted funds revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	27,520,209	990,183
Non-Budgeted Activity	-	-
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 27,520,209**	**$ 990,183**
EXPENDITURES		
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule	$ 27,366,845	$ 1,147,871
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:		
Medicaid payments	43,000	-
Compensated absences and other accrued liabilities	40,843	981
Reclassifications:		
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting	263,862	-
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund	(1,066,255)	(801,653)
Higher education expenditures are reclassified for GAAP reporting	(1,319,579)	-
Total budgeted funds expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	25,328,716	347,199
Non-Budgeted Activity	-	-
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 25,328,716**	**$ 347,199**
OTHER FINANCING SOURCES		
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule	$ 2,445,677	$ 1,575,198
Reclassifications:		
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting	-	-
Adjustments:		
Consolidation of transfers between funds	(316,011)	-
Inflows from component units and other miscellaneous financing sources	8,176	-
Total budgeted funds other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	2,137,842	1,575,198
Non-Budgeted Activity	-	-
Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 2,137,842**	**$ 1,575,198**
OTHER FINANCING USES		
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule	$ 3,681,494	$ 110,184
Adjustments and Reclassifications:		
Budgetary Stabilization Fund and Administrative Control Funds expenditures are reclassified to the General Fund for GAAP reporting	379,011	-
Consolidation of transfers between funds	(316,011)	-
Budgetary higher education amounts are reclassed to transfers under the modified accrual basis	1,246,462	-
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund	1,066,255	801,653
Outflows from component units and other miscellaneous financing sources	-	-
Total budgeted funds other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	6,057,211	911,837
Non-Budgeted Activity	-	-
Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 6,057,211**	**$ 911,837**

Note to Required Supplementary Information – Budgetary Reporting

The Commonwealth passes a combined budget for all budgeted operations. State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriation acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits, pension costs, and certain other costs which are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a difference to separately published budget documents, which eliminate some interfund activity. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. An example of this is the lack of a budget for pension costs.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

The FY04 General Appropriation Act (Chapter 26, Section 167 of the Acts of 2003), amended section 9C, directing the Governor to notify the Legislature in writing as to the reasons for and the effect of any reductions in spending. Alternatively, the Governor may propose specific additional revenues to fund the deficiency. The Governor may also propose to transfer funds from the Stabilization Fund to cure the deficiency. This proposal must be delivered to the Legislature 15 days before any reductions take effect.

The table on the following page summarizes budgetary activity for FY08 (amounts in thousands):

	Revenues	Expenditures
General Appropriation Act, Chapter 61 of the Acts of 2007:		
Direct appropriations	$ 28,329,977	$ 25,418,341
Estimated revenues, transfers, direct appropriations retained revenue appropriations, interagency chargebacks and appropriations carried forward from FY2007	1,399,066	2,110,557
Total original budget	29,729,043	27,528,898
Supplemental Acts of 2007:		
Chapter 67	-	1,000
Chapter 140	-	462
Chapter 174	-	15,000
Chapter 206	-	5,000
Chapter 228	-	62,307
Supplemental Acts of 2008:		
Chapter 62	-	89,247
Chapter 120	-	84,343
Chapter 130	-	5,000
Chapter 135	-	105,130
Total as of June 30, 2008	29,729,043	27,896,387
Supplemental Acts of 2008, passed after June 30:		
Chapter 302	-	46,526
Total budgeted revenues and expenditures per Legislative action	29,729,043	27,942,913
Plus: Transfers of revenues and expenditures (including rounding)	-	3,138,643
Budgeted revenues and expenditures as reported	$ 29,729,043	$ 31,081,556

As the budget is not passed taking into account the structure of funds, but of appropriations, reports contained within the Commonwealth's MMARS accounting system demonstrate budgetary compliance by appropriation. Those reports are available upon request at the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660.

Schedule of Pension Funding Progress
Last Six Fiscal Years

(Amounts in thousands except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
State Employees' Retirement System						
Actuarial Valuation as of January 1, 2008....	$ 20,400,656	$ 22,820,502	$ 2,419,846	89.4%	$ 4,574,233	52.9%
Actuarial Valuation as of January 1, 2007....	18,445,225	21,670,810	3,225,585	85.1%	4,391,891	73.4%
Actuarial Valuation as of January 1, 2006....	16,638,043	20,406,926	3,768,883	81.5%	4,200,577	89.7%
Actuarial Valuation as of January 1, 2005....	16,211,000	19,575,000	3,364,000	82.8%	3,967,000	84.8%
Actuarial Valuation as of January 1, 2004....	15,931,000	18,966,000	3,065,000	84.0%	3,842,000	79.8%
Actuarial Valuation as of January 1, 2003....	13,947,000	17,551,000	3,604,000	79.5%	3,779,000	95.4%
Teachers' Retirement System						
Actuarial Valuation as of January 1, 2008....	$ 22,883,553	$ 30,955,504	$ 8,071,951	73.9%	$ 5,163,498	156.3%
Actuarial Valuation as of January 1, 2007....	20,820,392	29,320,714	8,500,322	71.0%	4,969,092	171.1%
Actuarial Valuation as of January 1, 2006....	18,683,295	27,787,716	9,104,421	67.2%	4,819,325	188.9%
Actuarial Valuation as of January 1, 2005....	17,683,000	26,167,000	8,483,000	67.6%	4,643,000	182.7%
Actuarial Valuation as of January 1, 2004....	17,075,000	24,519,000	8,444,000	69.6%	4,556,000	163.4%
Actuarial Valuation as of January 1, 2003....	14,762,000	22,892,000	8,129,000	64.5%	4,406,000	184.5%

For a complete analysis of the Commonwealth's actuarial valuation report, please go to http://www.mass.gov/perac/valuation/2008commonwealth.pdf. Alternatively, copies of the Commonwealth's actuarial valuation reports may be obtained by contacting the Massachusetts Public Employee Retirement Administration Commission, 5 Middlesex Avenue, Suite 304, Somerville, MA 02145. Telephone number: 617-666-4446.

Schedule of Post Employment Benefit Funding Progress - State Retiree Benefits Trust Fund

(Amounts in millions except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
State Retiree Benefits Trust Fund						
Actuarial Valuation as of January 1, 2008….	$ 329	$ 11,649	$ 11,320	2.8%	TBD	TBD
Actuarial Valuation as of January 1, 2006….	-	9,812	9,812	0.0%	3,589	273.4%

TBD = To be determined.

For a complete analysis of the Commonwealth's actuarial valuation report, please contact the Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, MA 02108.

The museum's garden features a grape arbor, central fountain, and island-style plantings.

The feast consists of a giant outdoor Carne de Espeto barbecue pit. Here, hundreds of hungry visitors gather at this one of a kind 40 foot barbecue pit where they can skewer and season beef and cook it over the coals. Lava rock ensures that the temperature of the gas-fired barbecue stays evenly hot. The surrounding barracas (food stands) and latada (grape arbor) create an old world ambience.

Photography & Text courtesy of www.portuguesefeast.com

The Feast of the Blessed Sacrament

Founded in 1915 by four Madeiran immigrant men from New Bedford who wanted to recreate the religious festivals that were so common in the villages of their home island and to commemorate their safe passage to these American shores, this traditional mid-summer gathering for family and friends has become the Largest Portuguese Feast in the World and the largest ethnic festival in New England. The Feast attracts hundreds of thousands of visitors from around the globe. There is a procession, a parade, entertainment and children's activities.

The Feast is an opportunity for all to share in the rich Madeiran heritage and family values. Events take place in many places in the city including the Museum of Madeiran Heritage. The museum features a 'carro de bois', a canopied carriage with wooden runners which was hauled over cobbled streets by two bullocks.

Other Supplementary Information

Combined Balance Sheet – Nonmajor Governmental Funds
Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds
Combining Statement of Net Assets Available for Pension Benefits
Combining Statement of Changes in Net Assets Available for Pension Benefits
Combining Statement of Net Assets Held in Trust for Pool Participants
Combining Statement of Changes in Net Assets Held in Trust for Pool Participants
Combining Statement of Changes in Assets and Liabilities – Agency Funds
Combining Statement of Net Assets – Nonmajor Component Units
Combining Statement of Revenues, Expenses and Changes in Net Assets –Nonmajor Component Units

Bastille Day

The French Library Alliance Française of Boston (FAB) has been known for providing the most exciting Bastille Day dance in the city of Boston for over 30 years. Honoring the traditional celebration of "Liberty, Equality and Fraternity" of the July 14th French national holiday, is one of the highlights of Boston's summer scene. People dance to the tempo of French musette and French pop, imbibe in french food and drink at this bohemian fete.

FAB provides an authentic French cultural and social experience for the purpose of personal enrichment and greater understanding of the diverse peoples of the French-speaking world. The library houses the second largest private collection available in the U.S. The school offers language classes and programs for adults and children and Cultural center showcases the many aspects of the francophone culture through numerous lectures, concerts, cooking demonstrations, wine-tastings and art exhibitions.

Photography & Text courtesy of the French Library Alliance Française of Boston

Combined Balance Sheet
Other Governmental Funds
June 30, 2008
(Amounts in thousands)

	Special Revenue							
	Federal Grants	Universal Health Care	Environmental	Health Care Security Trust Fund	Convention and Exhibition Center Fund	Grant Anticipation Note Trust Fund	Expendable Trust Fund	Other
ASSETS								
Cash and short-term investments	$ -	$ 482,298	$ 10,576	$ -	$ 72,286	$ 10,896	$ 496,053	$ 697,899
Cash with fiscal agent	-	-	-	-	130,851	624,151	-	-
Investments and restricted investments	-	-	-	40,543	-	-	-	-
Receivables, net of allowance for uncollectibles:								
Taxes	-	-	74	-	10,232	-	-	60,452
Due from federal government	304,634	-	-	-	-	65,059	1,432	1,559
Other receivables	-	25,627	-	144,097	-	-	31,550	11,275
Due from other funds	-	-	-	-	-	-	-	-
Total assets	**$ 304,634**	**$ 507,925**	**$ 10,650**	**$ 184,640**	**$ 213,369**	**$ 700,106**	**$ 529,035**	**$ 771,185**
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	$ 217,921	$ 73,830	$ 327	$ -	$ 8,456	$ -	$ 46,210	$ 93,374
Accrued payroll	5,170	53	149	-	-	-	1,129	981
Due to other funds	44,198	-	-	-	-	65,060	5,609	-
Due to component units	-	-	-	-	-	-	-	112,183
Deferred inflows of resources	-	10,518	-	-	-	-	12,764	-
Claims and judgments	-	-	-	-	-	-	-	-
Other accrued liabilities	-	101,178	-	-	-	-	-	-
Total liabilities	**267,289**	**185,579**	**476**	**-**	**8,456**	**65,060**	**65,712**	**206,538**
Fund balances (deficits):								
Reserved for retirement of indebtedness	-	-	-	-	130,851	624,151	-	-
Reserved for central artery workers' compensation and general liability	-	-	-	-	-	-	-	-
Unreserved:								
Designated for reappropriated accounts, reported in:								
Special revenue	-	-	-	-	-	-	-	19,511
Capital projects	-	-	-	-	-	-	-	-
Undesignated:								
Special revenue	37,345	322,346	10,174	184,640	74,062	10,895	463,323	545,136
Capital projects	-	-	-	-	-	-	-	-
Permanent trust funds	-	-	-	-	-	-	-	-
Fund balances (deficits)	**37,345**	**322,346**	**10,174**	**184,640**	**204,913**	**635,046**	**463,323**	**564,647**
Total liabilities and fund balances	**$ 304,634**	**$ 507,925**	**$ 10,650**	**$ 184,640**	**$ 213,369**	**$ 700,106**	**$ 529,035**	**$ 771,185**

		Capital Projects							
Debt Service	General Capital Projects Funds	Central Artery Statewide Roads and Bridges	Convention and Exhibition Center	Capital Expenditure Reserve	Highway Capital Projects	Other	Permanent Trust	Total
$ -	$ 135,371	$ 83,521	$ 11,893	$ -	$ -	$ 9,890	$ 5,000	$ 2,015,683
154,990	-	-	-	-	-	111,250	-	1,021,242
-	-	-	-	-	-	-	-	40,543
-	-	-	-	-	-	-	-	70,758
-	1,743	-	-	-	-	-	-	374,427
-	-	-	-	-	-	327	-	212,876
-	-	-	-	-	-	65,060	-	65,060
$ 154,990	**$ 137,114**	**$ 83,521**	**$ 11,893**	**$ -**	**$ -**	**$ 186,527**	**$ 5,000**	**3,800,589**
$ -	$ 133,892	$ -	$ -	$ -	$ 69,144	$ 96,666	$ -	$ 739,820
-	1,020	-	-	-	1,877	674	-	11,053
-	-	-	-	9,245	367,191	9,853	-	501,156
-	-	-	-	-	-	-	-	112,183
-	-	-	-	-	-	-	-	23,282
-	-	-	-	-	-	13,000	-	13,000
-	-	-	-	-	-	-	-	101,178
-	**134,912**	**-**	**-**	**9,245**	**438,212**	**120,193**	**-**	**1,501,672**
154,990	-	-	-	-	-	-	-	909,992
-	-	-	-	-	-	77,064	-	77,064
-	-	-	-	-	-	-	-	19,511
-	2,202	83,521	11,893	-	-	5,144	-	102,760
-	-	-	-	-	-	-	-	1,647,921
-	-	-	-	(9,245)	(438,212)	(15,874)	-	(463,331)
-	-	-	-	-	-	-	5,000	5,000
154,990	**2,202**	**83,521**	**11,893**	**(9,245)**	**(438,212)**	**66,334**	**5,000**	**2,298,917**
$ 154,990	**$ 137,114**	**$ 83,521**	**$ 11,893**	**$ -**	**$ -**	**$ 186,527**	**$ 5,000**	**$ 3,800,589**

Combined Statement of Revenues, Expenditures and Changes in Fund Balances

Other Governmental Funds

Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Special Revenue							
	Federal Grants	Universal Health Care	Environmental	Health Care Security Trust Fund	Convention and Exhibition Center Fund	Grant Anticipation Note Trust Fund	Expendable Trust Fund	Other
REVENUES								
Taxes	$ -	$ 12,364	$ 891	$ -	$ 79,335	$ -	$ -	$ 856,377
Assessments	-	325,811	-	-	-	-	50,578	175,452
Federal grants and reimbursements	2,681,061	-	1,248	-	-	463,588	32,128	22,928
Departmental	-	50,893	6,300	-	-	-	65,964	100,445
Miscellaneous	38	140,126	60	466,924	8,452	50,948	264,417	416,197
Total revenues	**2,681,099**	**529,194**	**8,499**	**466,924**	**87,787**	**514,536**	**413,087**	**1,571,399**
OTHER FINANCING SOURCES								
Bonds premium	-	-	-	-	-	-	-	-
Proceeds of general obligation bonds	-	-	-	-	-	-	-	-
Transfers in for debt service	-	-	-	-	-	-	-	-
Operating transfers in	1,384	1,561,639	117	-	-	53,464	18,739	114,421
Total other financing sources	**1,384**	**1,561,639**	**117**	**-**	**-**	**53,464**	**18,739**	**114,421**
Total revenues and other financing sources	**2,682,483**	**2,090,833**	**8,616**	**466,924**	**87,787**	**568,000**	**431,826**	**1,685,820**
EXPENDITURES								
Current:								
Judiciary	460	-	-	-	-	-	448	1,560
Inspector General	-	61	-	-	-	-	-	-
Secretary of the Commonwealth	1,207	-	-	-	-	-	-	5,533
Treasurer and Receiver-General	772	-	-	-	-	25,440	62,893	905,488
Auditor of the Commonwealth	-	-	-	-	-	-	70	-
Attorney General	8,383	-	-	-	-	-	4,100	395
District Attorney	2,135	-	-	-	-	-	6,376	155
Sheriff's Departments	2,507	-	-	-	-	-	252	-
Disabled Persons Protection Commission	47	-	-	-	-	-	-	-
Board of Library Commissioners	3,257	-	-	-	-	-	21	-
Comptroller	-	-	-	-	-	-	35	1,757
Administration and finance	6,965	-	-	9	21,483	-	9,141	141,016
Energy and environmental affairs	31,016	-	10,742	-	-	-	31,646	21,780
Health and human services	1,003,306	364,534	-	126,768	-	-	39,438	15,625
Transportation and public works	11,539	-	-	-	-	-	644	35,819
Executive Office of Education								
Early education and care	9,019	-	-	-	-	-	-	777
Department of elementary and secondary education	805,736	-	-	-	-	-	5,637	-
Higher education	5,632	-	-	-	-	-	6,628	2,243
Public safety and homeland security	91,337	-	-	-	-	-	44,558	1,562
Housing and economic development	426,043	-	-	-	-	-	22,931	51,047
Labor and workforce development	136,167	38,528	-	-	-	-	45,096	28,659
Medicaid	-	1,380,138	-	-	-	-	-	13,813
Direct local aid	-	-	-	-	-	-	-	9,848
Capital outlay:								
Local aid	-	-	-	-	-	-	-	-
Capital acquisition and construction	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Total expenditures	**2,545,527**	**1,783,261**	**10,742**	**126,777**	**21,483**	**25,440**	**279,914**	**1,237,077**
OTHER FINANCING USES								
Operating transfers out	100,929	114,768	2,305	810,240	-	326,358	105,799	51,290
Transfers of appropriations	-	-	-	-	-	-	-	-
Transfers of bond proceeds	-	-	-	-	-	-	-	-
Transfers out for debt service	-	-	-	-	35,600	211,709	-	4,341
Total other financing uses	**100,929**	**114,768**	**2,305**	**810,240**	**35,600**	**538,067**	**105,799**	**55,631**
Total expenditures and other financing uses	**2,646,456**	**1,898,029**	**13,047**	**937,017**	**57,083**	**563,507**	**385,713**	**1,292,708**
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	**36,027**	**192,804**	**(4,431)**	**(470,093)**	**30,704**	**4,493**	**46,113**	**393,112**
Fund balances (deficits) at beginning of year	1,318	129,543	14,605	654,733	174,209	630,553	417,210	171,535
Fund balances (deficits) at end of year	**$ 37,345**	**$ 322,346**	**$ 10,174**	**$ 184,640**	**$ 204,913**	**$ 635,046**	**$ 463,323**	**$ 564,647**

Debt Service	Capital Projects: General Capital Projects Funds	Capital Projects: Central Artery Statewide Roads and Bridges	Capital Projects: Convention and Exhibition Center	Capital Projects: Capital Expenditure Reserve	Capital Projects: Highway Capital Projects	Capital Projects: Other	Permanent Trust	Total
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 948,967
-	-	-	-	-	-	-	-	551,841
-	19,911	-	-	-	-	672	-	3,221,536
-	-	19,848	-	-	-	312	-	243,762
31,021	-	4,003	-	12,500	10	4,775	-	1,399,471
31,021	**19,911**	**23,851**	**-**	**12,500**	**10**	**5,759**	**-**	**6,365,576**
-	16,302	-	-	-	8,279	540	-	25,121
-	831,177	-	-	-	422,137	27,510	-	1,280,824
2,119,558	-	-	-	-	-	-	-	2,119,558
-	-	19,491	-	-	-	494,538	-	2,263,793
2,119,558	**847,479**	**19,491**	**-**	**-**	**430,416**	**522,588**	**-**	**5,689,296**
2,150,579	**867,390**	**43,342**	**-**	**12,500**	**430,426**	**528,347**	**-**	**12,054,872**
-	-	-	-	-	-	-	-	2,468
-	-	-	-	-	-	-	-	61
-	-	-	-	-	-	-	-	6,740
10,711	-	-	-	-	-	-	-	1,005,304
-	-	-	-	-	-	-	-	70
-	-	-	-	-	-	-	-	12,878
-	-	-	-	-	-	-	-	8,666
-	-	-	-	-	-	-	-	2,759
-	-	-	-	-	-	-	-	47
-	-	-	-	-	-	-	-	3,278
-	-	-	-	-	-	-	-	1,792
-	-	-	-	-	-	-	-	178,614
-	-	-	-	-	-	-	-	95,184
-	-	-	-	-	-	-	-	1,549,671
-	-	-	-	-	-	27,773	-	75,775
-	-	-	-	-	-	-	-	9,796
-	-	-	-	-	-	-	-	811,373
-	-	-	-	-	-	-	-	14,503
-	-	-	-	-	-	-	-	137,457
-	-	-	-	-	-	-	-	500,021
-	-	-	-	-	-	-	-	248,450
-	-	-	-	-	-	-	-	1,393,951
-	-	-	-	-	-	-	-	9,848
-	-	-	-	-	-	10,368	-	10,368
-	627,322	71,599	-	360	508,602	490,445	-	1,698,328
2,238,939	-	-	-	-	-	-	-	2,238,939
2,249,650	**627,322**	**71,599**	**-**	**360**	**508,602**	**528,586**	**-**	**10,016,339**
3,611	12,324	-	-	-	193,959	9,759	-	1,731,342
-	-	-	-	-	-	-	-	-
-	61,079	-	-	-	-	-	-	61,079
-	-	-	-	-	-	-	-	251,650
3,611	**73,403**	**-**	**-**	**-**	**193,959**	**9,759**	**-**	**2,044,071**
2,253,260	**700,725**	**71,599**	**-**	**360**	**702,561**	**538,345**	**-**	**12,060,410**
(102,681)	**166,665**	**(28,257)**	**-**	**12,140**	**(272,135)**	**(9,998)**	**-**	**(5,539)**
257,672	(164,463)	111,778	11,893	(21,385)	(166,077)	76,332	5,000	2,304,456
$ 154,990	**$ 2,202**	**$ 83,521**	**$ 11,893**	**$ (9,245)**	**$ (438,212)**	**$ 66,334**	**$ 5,000**	**$ 2,298,917**

Combining Statement of Net Assets Available for Post - Employment Benefits

Pension Trust Funds
June 30, 2008
(Amounts in thousands)

	Pension Trust Funds			
	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
ASSETS				
Cash and short-term investments	$ 32,514	$ 21,890	$ -	$ 54,404
Investments at fair value	20,969,937	23,539,379	347,550	44,856,866
Other receivables	-	-	7,055	7,055
Total assets	**21,002,451**	**23,561,269**	**354,605**	**44,918,325**
LIABILITIES				
Accounts payable	1,327	7,947	25,647	34,921
Total liabilities	**1,327**	**7,947**	**25,647**	**34,921**
Net assets available for post - employment benefits (fund balances reserved for employees' post - employment benefits)	**$ 21,001,124**	**$ 23,553,322**	**$ 328,958**	**$ 44,883,404**

Combining Statement of Changes in Net Assets Available for Post -Employment Benefits

Pension Trust Funds

Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	State Employees' PERS	Teachers' PERS	State Retiree Benefits	Total
ADDITIONS				
Contribution:				
Employer contributions	$ 491,734	$ 907,360	$ 683,294	$ 2,082,388
Employee contributions	464,330	573,984	-	1,038,314
Total contributions	**956,064**	**1,481,344**	**683,294**	**3,120,702**
Net investment income:				
Net Investment income / (loss), net of management fees	(506,581)	(632,212)	-	(1,138,793)
Total investment income	**(506,581)**	**(632,212)**	**-**	**(1,138,793)**
Less: investment expense	-	-	-	-
Net investment income	**(506,581)**	**(632,212)**	**-**	**(1,138,793)**
Total additions	**449,483**	**849,132**	**683,294**	**1,981,909**
DEDUCTIONS				
Administration	7,573	14,975	-	22,548
Retirement benefits and refunds	1,294,574	1,859,322	354,336	3,508,232
Total deductions	**1,302,147**	**1,874,297**	**354,336**	**3,530,780**
Net increase	**(852,664)**	**(1,025,165)**	**328,958**	**(1,548,871)**
Net assets available for post - employment benefits at beginning of year (fund balances reserved for employees' post - employment benefits)	21,853,788	24,578,487	-	46,432,275
Net assets available for post - employment benefits at end of year (fund balances reserved for employees' post - employment benefits)	**$ 21,001,124**	**$ 23,553,322**	**$ 328,958**	**$ 44,883,404**

Combining Statement of Net Assets Held in Trust for Pool Participants

External Investment Trust Funds
June 30, 2008
(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
ASSETS			
Assets held in trust for pension benefits:			
Cash and short-term investments	$ -	$ 2,309,169	$ 2,309,169
Investments at fair value	-	4,949,703	4,949,703
Assets held in trust for pool participants:			
Cash and short-term investments	4,545,143	-	4,545,143
Other receivables……..	47,276	132,356	179,632
Other assets	-	735,223	735,223
Total assets	**4,592,419**	**8,126,451**	**12,718,870**
LIABILITIES			
Liabilities:			
Accounts payable	5,735	2,403,212	2,408,947
Other accrued liablities	2,951	-	2,951
Total liabilities	**8,686**	**2,403,212**	**2,411,898**
Net assets held in trust for pool/pension participants (fund balance reserved for investment pool/employee pension benefits)……	**$ 4,583,733**	**$ 5,723,239**	**$ 10,306,972**

Combining Statement of Changes in Net Assets Held in Trust for Pool Participants

External Investment Trust Funds
Fiscal Year Ended June 30, 2008
(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
ADDITIONS			
Contribution:			
Proceeds from sale of units	$ 16,897,983	$ 1,804,110	$ 18,702,093
Total contributions	**16,897,983**	**1,804,110**	**18,702,093**
Net investment income:			
Investment income / (loss), net of management fees	495,593	(46,730)	448,863
Net investment income	**495,593**	**(46,730)**	**448,863**
Total additions	**17,393,576**	**1,757,380**	**19,150,956**
DEDUCTIONS			
Cost of units redeemed	15,831,021	-	15,831,021
Distributions to unit holders from net interest income	161,423	-	161,423
Total deductions	**15,992,444**	**-**	**15,992,444**
Net increase	**1,401,132**	**1,757,380**	**3,158,512**
Net assets held in trust for pool participants/pensions at beginning of year (fund balance reserved for investment pool participants/employees' pension benefit)	3,182,601	3,965,859	7,148,460
Net assets held in trust for pool participants/pensions at end of year (fund balance reserved for investment pool participants/ employees' pension benefit)	**$ 4,583,733**	**$ 5,723,239**	**$ 10,306,972**

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Central Agency Funds				
ASSETS				
Cash and short-term investments	$ 350,570	$ 7,820,907	$ 7,854,029	$ 317,448
Investments, restricted investments and annuity contracts	1,411,814	207,129	156,536	1,462,407
Assets held in trust	930	1,947	930	1,947
Taxes receivable	-	-	-	-
Total assets	**$ 1,763,314**	**$ 8,029,983**	**$ 8,011,495**	**$ 1,781,802**
LIABILITIES				
Accounts payable	$ 76,927	$ 3,677,259	$ 3,709,677	$ 44,509
Due to cities and towns	51,565	450,390	431,625	70,330
Due to federal government	-	78	78	-
Lottery prizes payable	1,411,814	207,129	156,536	1,462,407
Agency liabilities	223,008	3,069,620	3,088,072	204,556
Total liabilities	**$ 1,763,314**	**$ 7,404,476**	**$ 7,385,988**	**$ 1,781,802**
Court Escrow and Client Accounts				
ASSETS				
Cash and short-term investments	$ 93,447	$ 1,155,538	$ 1,157,612	$ 91,373
Assets held in trust	53,619	31,182	31,874	52,927
Other receivables	97,740	109,676	97,740	109,676
Total assets	**$ 244,806**	**$ 1,296,396**	**$ 1,287,226**	**$ 253,976**
LIABILITIES				
Accounts payable	$ 155	$ 1,113,000	$ 1,112,971	$ 184
Agency liabilities	244,651	710,424	701,283	253,792
Total liabilities	**$ 244,806**	**$ 1,823,424**	**$ 1,814,254**	**$ 253,976**
Statutory Bonds and Deposits				
ASSETS				
Cash and short-term investments	$ 86	$ -	$ -	$ 86
Assets held in trust	867,785	256,498	346,127	778,156
Total assets	**$ 867,871**	**$ 256,498**	**$ 346,127**	**$ 778,242**
LIABILITIES				
Agency liabilities	$ 867,871	$ 256,498	$ 346,127	$ 778,242
Total liabilities	**$ 867,871**	**$ 256,498**	**$ 346,127**	**$ 778,242**

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Total Agency Funds				
ASSETS				
Cash and short-term investments	$ 444,103	$ 8,976,445	$ 9,011,641	$ 408,907
Investments, restricted investments and annuity contracts	1,411,814	207,129	156,536	1,462,407
Assets held in trust	921,404	287,680	378,001	831,083
Taxes receivable	930	1,947	930	1,947
Other receivables	97,740	109,676	97,740	109,676
Total assets	**$ 2,875,991**	**$ 9,582,877**	**$ 9,644,848**	**$ 2,814,020**
LIABILITIES				
Accounts payable	$ 77,082	$ 4,790,259	$ 4,822,648	$ 44,693
Due to cities and towns	51,565	450,390	431,625	70,330
Due to federal government	-	78	78	-
Lottery prizes payable	1,411,814	207,129	156,536	1,462,407
Agency liabilities	1,335,530	4,036,542	4,135,482	1,236,590
Total liabilities	**$ 2,875,991**	**$ 9,484,398**	**$ 9,546,369**	**$ 2,814,020**

Combining Statement of Net Assets

Nonmajor Component Units

June 30, 2008

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Regional Transit Authorities	Massachusetts Technology Park Corporation	Commonwealth Health Insurance Connector	Economic Development Entities	Total
ASSETS							
Current assets:							
Cash and cash equivalents	$ 54,512	$ 56,872	$ 14,009	$ 300	$ -	$ 46,863	$ 172,556
Short-term investments	440	238,573	3,089	247,461	28,178	145,707	663,448
Receivables, net of allowance for uncollectibles:							
Federal grants and reimbursement receivable	-	-	23,419	-	5,116	6,281	34,816
Loans	-	14,880	-	-	-	29,220	44,100
Other receivables	1,866	8,731	16,132	6,386	90	5,406	38,611
Due from cities and towns	-	-	28,480	-	-	-	28,480
Due from primary government	8,457	5,541	70,569	25	-	8,689	93,281
Inventory	-	179	556	-	-	94	829
Other current assets	1,478	6,273	3,530	137	3,615	205	15,238
Total current assets	**66,753**	**331,049**	**159,784**	**254,309**	**36,999**	**242,465**	**1,091,359**
Noncurrent assets:							
Cash and cash equivalents - restricted	-	18,153	5,142	347	-	-	23,642
Long - term investments	-	24,871	-	3,589	-	4,421	32,881
Restricted investments	-	-	-	22,935	-	-	22,935
Accounts receivables, net	-	4,632	3,933	-	-	7,114	15,679
Loans receivables, net	-	67,617	-	10,859	-	287,656	366,132
Due from primary government	-	-	8,519	-	-	300,115	308,634
Non-depreciable capital assets	62,325	19,405	31,223	-	-	28	112,981
Depreciable capital assets, net	748,912	207,435	227,274	11,925	313	14,148	1,210,007
Other noncurrent assets	44	32,694	18,132	-	-	2,963	53,833
Total noncurrent assets	**811,281**	**374,807**	**294,223**	**49,655**	**313**	**616,445**	**2,146,724**
Total assets	**878,034**	**705,856**	**454,007**	**303,964**	**37,312**	**858,910**	**3,238,083**
LIABILITES							
Current liabilities:							
Accounts payable and other liabilities	14,073	30,540	31,559	42,096	12,737	24,661	155,666
Accrued payroll	-	1,062	233	-	438	357	2,090
Compensated absences	1,323	715	162	-	-	666	2,866
Accrued interest payable	-	2,975	1,995	-	-	3,686	8,656
Due to primary government	2,390	-	-	-	-	-	2,390
Deferred inflow of resources	14,059	-	5,355	-	7,972	7,733	35,119
Bonds, notes payable and other obligations	1,920	16,753	108,293	-	-	23,879	150,845
Total current liabilities	**33,765**	**52,045**	**147,597**	**42,096**	**21,147**	**60,982**	**357,632**
Noncurrent liabilities:							
Compensated absences	-	-	376	-	-	98	474
Accrued interest payable	-	-	12	-	-	-	12
Deferred inflow of resources	-	4,302	4,381	-	-	20,163	28,846
Capital leases	-	-	-	-	-	-	-
Bonds, notes payable and other obligations	10,546	213,601	32,057	-	-	633,747	889,951
Net post - employment obligations	2,681	-	1,461	-	163	-	4,305
Other noncurrent liabilities	-	-	5,204	3,227	-	14,829	23,260
Total noncurrent liabilities	**13,227**	**217,903**	**43,491**	**3,227**	**163**	**668,837**	**946,848**
Total liabilities	**46,992**	**269,948**	**191,088**	**45,323**	**21,310**	**729,819**	**1,304,480**
NET ASSETS							
Invested in capital assets, net of related debt	796,425	41,314	268,786	11,925	313	14,439	1,133,202
Restricted for:							
Capital projects	-	-	-	-	-	193	193
Other purposes	-	197,457	3,758	239,275	-	65,669	506,159
Unrestricted	34,617	197,137	(9,625)	7,441	15,689	48,790	294,049
Total net assets	**$ 831,042**	**$ 435,908**	**$ 262,919**	**$ 258,641**	**$ 16,002**	**$ 129,091**	**$ 1,933,603**

Combining Statement of Revenues, Expenses and Changes in Net Assets

Nonmajor Component Units
Fiscal Year Ended June 30, 2008
(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Regional Transit Authorities	Massachusetts Technology Park Corporation	Commonwealth Health Insurance Connector	Economic Development Entities	Total
Operating revenues:							
Charges for services	$ 51,481	$ 36,941	$ 118,184	$ -	$ 656,173	$ 58,647	$ 921,426
Other	1,028	24,205	4,417	33,705	-	51,404	114,759
Total operating revenues	**52,509**	**61,146**	**122,601**	**33,705**	**656,173**	**110,051**	**1,036,185**
Operating expenses:							
Cost of services	63,297	1,680	222,786	54,600	645,165	64,571	1,052,099
Administration costs	4,939	55,293	17,751	456	8,662	19,234	106,335
Depreciation	38,365	9,389	23,297	373	83	790	72,297
Total operating expenses	**106,601**	**66,362**	**263,834**	**55,429**	**653,910**	**84,595**	**1,230,731**
Operating income (loss)	**(54,092)**	**(5,216)**	**(141,233)**	**(21,724)**	**2,263**	**25,456**	**(194,546)**
Nonoperating revenues (expenses):							
Operating grants	19,593	479	118,207	-	-	7,375	145,654
Interest income	2,272	13,340	612	8,669	843	919	26,655
Interest expense	(568)	(12,497)	(4,940)	-	-	(17,621)	(35,626)
Other nonoperating revenue (expense)	-	1,625	327	-	-	(1,540)	412
Nonoperating revenues (expenses), net	**21,297**	**2,947**	**114,206**	**8,669**	**843**	**(10,867)**	**137,095**
Income (loss) before contributions and operating transfer	**(32,795)**	**(2,269)**	**(27,027)**	**(13,055)**	**3,106**	**14,589**	**(57,451)**
Capital contributions	2,353	34,615	49,978	-	-	11,863	98,809
Change in net assets	**(30,442)**	**32,346**	**22,951**	**(13,055)**	**3,106**	**26,452**	**41,358**
Net assets - beginning	861,484	403,562	239,968	271,696	12,896	102,639	1,892,245
Net assets - ending	**$ 831,042**	**$ 435,908**	**$ 262,919**	**$ 258,641**	**$ 16,002**	**$ 129,091**	**$ 1,933,603**

Art in the Park

The DeCordova Museum and Sculpture Park is a public museum of art established to educate as broad and diverse a public as possible about modern and contemporary American art. The Sculpture Park, encompassing 35 acres of rolling woodlands and lawns, is the largest park of its kind in New England. The Sculpture Park provides a constantly changing exhibition of large-scale, outdoor, contemporary American sculpture for 125,000 visitors each year and contains approximately 75 artworks at any given time.

Every year in June, DeCordova Museum and Sculpture Park transforms into a maze of art and entertainment during the Annual Art in the Park Festival and Art Sale. Art in the Park is a unique family event that combines performances, art activities, food concessions, and the area's largest outdoor art exhibition and sale featuring over 100 of New England's finest artists and artisans.

This year, visitors viewed and purchased paintings, ceramics, photographs, sculptures, prints, jewelry and glassworks, many of which were one of a kind. Children made T-shirt paintings, clothespin creations, fabric gardens, yarn bugs, and a community seascape.

Photography & Text courtesy of Toru Nakanishi and the DeCordova Museum

Statistical Section

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Scandinavian Midsummer Festival

Midsummer Festival events are an important and continuing part of the Scandinavian culture, and normally happen around the summer solstice, longest day in June in Scandinavia.

Rockport has a large Scandinavian community that migrated to work in the fishing industries and in the granite quarries. Members dressed in native costume and held a Maypole dance. Before the maypole is raised, greens and flowers are collected and used to decorate it. The Cape Ann Finnish singers performed traditional music and a wide variety of home-prepared foods and a bounty of fresh berries were abundant as traditionally the first strawberries of the season are served at the Festival.

Photography courtesy of the Rockport Chamber of Commerce

Statistical Section Narrative and Table of Contents

This part of the Commonwealth of Massachusetts' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health.

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Financial Trends

These schedules contain trend information to help the reader understand how the Commonwealth's financial performance and fiscal health has changed over time. The schedules presented from an entity wide perspective are only included from FY02 and forward, coinciding with the implementation of GASB 34. Fund perspective statements are presented for the last ten fiscal years, except where noted. Schedules included are:

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Schedule Of Net Assets by Component
Last Seven Fiscal Years

(Amounts in thousands)

	2008	2007*	2006	2005	2004	2003	2002
Governmental activities							
Invested in capital assets, net of related debt	$ 446,666	$ 489,432	$ 101,510	$ 196,765	$ 2,032,958	$ 3,901,007	$ 5,611,252
Restricted*	979,475	993,520	1,758,291	1,289,174	519,746	311,837	793,991
Unrestricted*	(10,587,591)	(11,079,729)	(12,157,187)	(13,030,031)	(8,894,155)	(12,318,385)	(13,820,768)
Total governmental activities net assets	**$ (9,161,450)**	**$ (9,596,777)**	**$ (10,297,385)**	**$ (11,544,092)**	**$ (6,341,451)**	**$ (8,105,541)**	**$ (7,415,525)**
Business - type activities							
Invested in capital assets, net of related debt	$ 1,562,002	$ 1,392,363	$ 1,283,570	$ 1,149,352	$ 1,132,637	$ 1,073,152	$ 1,032,022
Restricted	2,390,206	2,295,507	1,816,066	1,331,053	915,583	946,704	1,784,322
Unrestricted	644,363	645,211	548,774	562,777	434,007	321,523	243,605
Total business - type activities net assets	**$ 4,596,571**	**$ 4,333,081**	**$ 3,648,410**	**$ 3,043,182**	**$ 2,482,227**	**$ 2,341,379**	**$ 3,059,949**
Commonwealth net assets							
Invested in capital assets, net of related debt	$ 2,008,668	$ 1,881,795	$ 1,385,080	$ 1,346,117	$ 3,165,595	$ 4,974,159	$ 6,643,274
Restricted*	3,369,681	3,289,027	3,574,357	4,750,395	1,435,329	1,258,541	2,578,313
Unrestricted*	(9,943,228)	(10,434,518)	(11,608,413)	(14,597,422)	(8,460,148)	(11,996,862)	(13,577,163)
Total Commonwealth net assets	**$ (4,564,879)**	**$ (5,263,696)**	**$ (6,648,975)**	**$ (8,500,910)**	**$ (3,859,224)**	**$ (5,764,162)**	**$ (4,355,576)**

*Restated

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Changes in Net Assets
Last Seven Fiscal Years

(Amounts in thousands)

	2008	2007	2006	2005	2004	2003	2002
EXPENSES							
Governmental Activities:							
General government	$ 2,213,925	$ 2,172,191	$ 1,984,732	$ 1,815,877	$ 2,059,234	$ 1,833,325	$ 1,360,663
Judiciary	858,272	818,366	673,930	636,381	538,434	594,584	571,467
Direct local aid	5,118,858	5,081,359	4,682,027	4,525,847	4,877,089	5,118,711	5,252,805
Medicaid	9,769,893	9,044,420	8,150,576	7,705,717	6,909,412	6,177,280	5,978,811
Group health insurance	828,297	1,033,796	970,150	872,970	778,072	732,252	770,832
Interest (unallocated)	1,152,162	1,079,551	985,474	861,265	788,908	739,463	687,817
Pension	1,028,058	256,790	441,200	440,152	241,845	354,802	237,472
Energy and environmental	483,421	475,327	415,440	396,094	366,943	376,983	457,055
Housing and economic development*	885,034	515,792	664,321	603,227	589,603	585,263	551,377
Health and human services*	6,378,193	6,327,133	6,435,352	6,292,638	5,858,540	5,657,820	5,546,251
Transportation and public works	1,151,427	1,259,699	1,266,396	1,546,361	1,558,462	2,037,485	1,753,244
Early elementary and secondary education*	2,916,850	1,866,430	1,942,206	8,219,960	1,248,020	1,422,204	1,893,438
Public safety and homeland security	1,821,240	1,694,292	1,650,547	1,520,338	1,412,580	1,289,341	959,425
Labor and workforce development*	311,371	633,817	387,132	358,839	380,698	420,871	384,591
Lottery	3,910,362	3,689,221	3,708,713	3,692,520	3,606,608	3,470,046	3,453,858
Total governmental activities	**38,827,362**	**35,948,184**	**34,358,196**	**39,488,186**	**31,214,448**	**30,810,430**	**29,859,108**
Business - Type Activities:							
Unemployment compensation	1,554,885	1,430,130	1,337,565	1,662,955	2,461,293	2,589,107	2,183,100
Higher Education:							
University of Massachusetts	2,274,312	2,233,634	2,116,226	1,977,546	1,597,676	1,531,381	1,437,518
State colleges	733,842	624,470	568,592	514,122	456,022	425,154	418,593
Community colleges	685,235	627,400	592,310	548,017	525,179	523,403	508,895
Total business - type activities	**5,248,274**	**4,915,634**	**4,614,693**	**4,702,640**	**5,040,170**	**5,069,045**	**4,548,107**
Total Commonwealth expenses	**$ 44,075,636**	**$ 40,863,818**	**$ 38,972,889**	**$ 44,190,826**	**$ 36,254,618**	**$ 35,879,475**	**$ 34,407,214**

Changes in Net Assets
Last Seven Fiscal Years

(Amounts in thousands)

	2008	2007	2006	2005	2004	2003	2002
REVENUES							
Program Revenues:							
Governmental Activities:							
Charges for services:							
General government	$ 414,614	$ 564,347	$ 451,753	$ 492,750	$ 463,132	$ 233,135	$ 158,825
Judiciary	124,542	118,652	115,443	105,072	101,994	74,412	62,982
Medicaid	176,471	172,136	702,104	937,422	687,535	26,772	90,081
Group health insurance	209,008	151,604	131,611	111,342	98,598	93,529	81,089
Energy and environmental	162,639	168,789	156,074	138,854	152,632	132,531	124,317
Housing and economic development*	185,019	1,892	6,245	3,515	1,446	1,373	1,282
Health and human services*	601,483	538,543	613,780	756,469	861,899	966,813	909,777
Transportation and public works	477,420	461,217	448,349	478,154	13,687	7,813	6,995
Early elementary and secondary education*	10,766	8,042	6,346	5,583	11,644	5,073	3,909
Public safety and homeland security	153,641	126,962	135,846	112,350	564,023	520,496	451,101
Labor and workforce development*	31,758	187,256	213,078	199,817	179,794	168,471	160,577
Lottery	4,905,509	4,656,110	4,726,339	4,698,935	4,603,204	4,421,621	4,423,052
Total Charges for services	7,452,873	7,155,550	7,706,968	8,040,263	7,739,588	6,652,039	6,473,987
Operating grants and contributions	9,271,936	8,849,046	8,347,822	7,961,904	8,017,469	7,129,712	7,078,110
Capital grants and contributions	484,172	487,365	481,780	461,371	602,449	508,235	338
Total governmental activities	**17,208,980**	**16,491,961**	**16,536,570**	**16,463,538**	**16,359,506**	**14,289,986**	**13,552,435**
Business - Type Activities:							
Charges for services:							
Unemployment Compensation	1,587,543	1,698,249	1,741,101	242,769	1,481,803	940,475	25,183
Higher Education:							
University of Massachusetts	1,160,513	1,194,393	1,076,875	424,184	822,668	678,812	584,633
State Colleges	400,369	287,195	272,918	64,872	222,740	182,428	147,902
Community Colleges	204,190	190,808	175,418	122,828	165,257	141,480	119,671
Operating grants and contributions	710,974	746,385	684,108	854,653	1,376,666	1,249,768	869,848
Capital grants and contributions	-	-	-	-	-	-	77,161
Total business - type activities	**4,063,589**	**4,117,030**	**3,950,420**	**4,108,237**	**4,069,134**	**3,192,962**	**1,824,398**
Total Commonwealth Program Revenues	**$ 21,272,569**	**$ 20,608,991**	**$ 20,486,988**	**$ 20,571,775**	**$ 20,428,640**	**$ 17,482,948**	**$ 15,376,834**
General Revenues and Other Changes in Net Assets (all types consolidated):							
Governmental Activities:							
Taxes (all types)	$ 21,174,430	$ 20,001,189	$ 18,668,322	$ 17,580,271	$ 16,406,781	$ 15,161,687	$ 14,688,596
Investment earnings and miscellaneous	2,057,309	1,318,008	1,396,033	1,168,540	1,042,704	1,179,686	(367,695)
Gain on sale of fixed assets	-	-	26,300	-	-	-	-
Transfers	(1,178,030)	(1,167,367)	(1,022,320)	(926,715)	(830,453)	(950,217)	(1,018,603)
Total governmental activities	**22,053,709**	**20,151,830**	**19,068,335**	**17,822,096**	**16,619,033**	**15,391,157**	**13,302,298**
Business - Type Activities:							
Investment earnings and miscellaneous	$ 270,145	$ 315,908	247,181	228,643	181,719	207,296	965,901
Transfers	1,178,030	1,167,367	1,022,320	926,715	830,453	950,217	1,018,603
Total business - type activities	**1,448,175**	**1,483,275**	**1,269,501**	**1,155,358**	**1,012,172**	**1,157,513**	**1,984,504**
Total Commonwealth General Revenues	**$ 23,501,884**	**$ 21,635,105**	**$ 20,337,836**	**$ 18,977,454**	**$ 17,631,205**	**$ 16,548,670**	**$ 15,286,802**
CHANGES IN NET ASSETS							
Governmental activities	$ 435,327	$ 695,608	$ 1,246,707	$ (5,202,551)	$ 1,764,090	$ (1,129,287)	$ (3,004,374)
Business - type activities	263,490	684,671	605,228	560,955	41,136	(718,570)	(739,205)
Total Commonwealth	**$ 698,817**	**$ 1,380,279**	**$ 1,851,935**	**$ (4,641,596)**	**$ 1,805,226**	**$ (1,847,857)**	**$ (3,743,578)**

* NOTE: Reflects departmental and functional reorganizations as of the year implemented. Prior years not restated.

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Fund Balances, Governmental Funds
Last Seven Fiscal Years
(Modified accrual basis of accounting)

(Amounts in thousands)

	2008	2007	2006	2005	2004	2003	2002
General Fund							
Reserved	$ -	$ -	$ 3,060,199	$ 2,337,535	$ 1,482,978	$ 690,727	$ 967,724
Unreserved	3,171,278	4,899,154	1,861,875	1,730,350	1,014,469	619,190	1,407,669
Total general fund	**3,171,278**	**4,899,154**	**4,922,074**	**4,067,885**	**2,497,447**	**1,309,917**	**2,375,393**
All Other Governmental Funds							
Reserved	1,002,675	1,092,343	1,109,898	1,154,807	1,947,897	1,474,983	1,726,590
Unreserved	2,888,710	1,744,362	1,231,222	(174,126)	(20,938)	(763,882)	(1,634,130)
Total all other governmental funds	**3,891,385**	**2,836,705**	**2,341,121**	**980,681**	**1,926,959**	**711,101**	**92,460**
Total governmental fund balances	**$ 7,062,663**	**$ 7,735,859**	**$ 7,263,195**	**$ 5,048,566**	**$ 4,424,406**	**$ 2,021,018**	**$ 2,467,853**

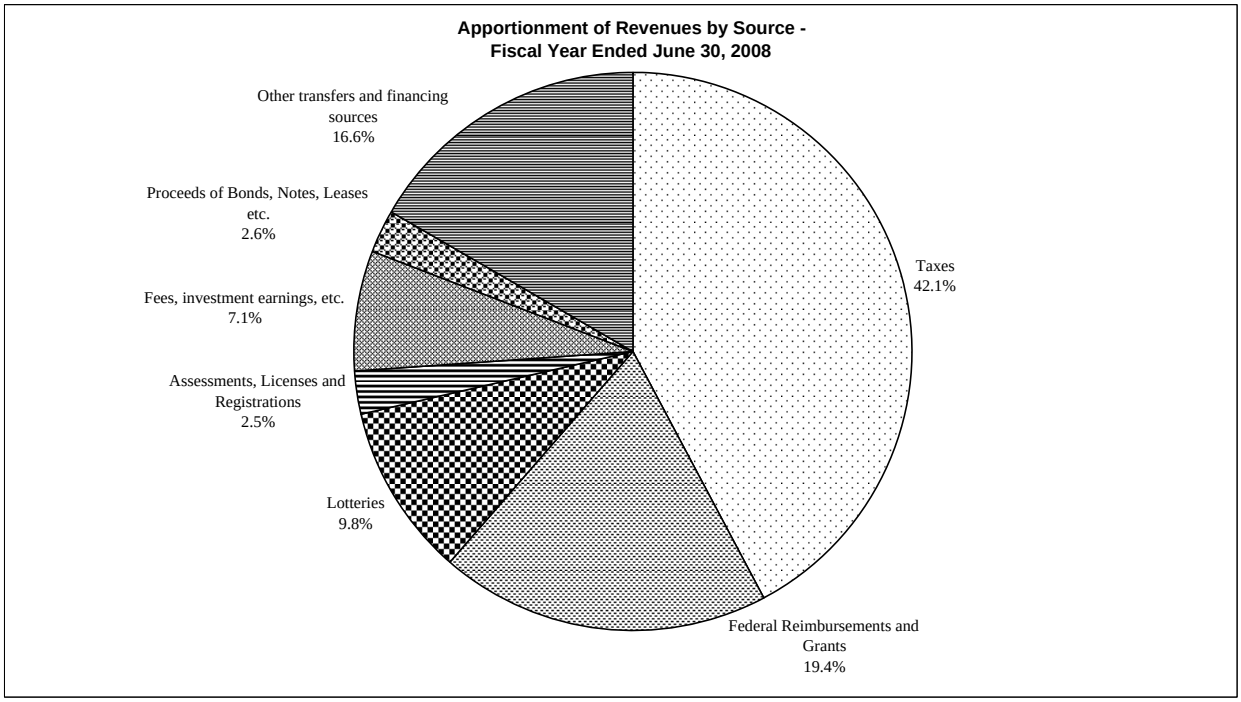
Ten-Year Schedule Of Revenues And Other Financing Sources

All Governmental Fund Types - Fund Perspective

(Modified Accrual Basis of Accounting)

(Amounts in millions)

	2008	% Total	2007	% Total	2006	% Total	2005	% Total
Taxes	$ 21,120	42.1	$ 19,985	40.5	$ 18,754	39.7	$ 17,671	40.6
Federal reimbursements	7,037	14.0	6,847	13.9	6,350	13.5	6,053	13.9
Federal grants	2,681	5.3	2,489	5.0	2,479	5.3	2,369	5.4
Lotteries	4,915	9.8	4,670	9.5	4,739	10.0	4,705	10.8
Assessments	858	1.7	860	1.7	850	1.8	831	1.9
Motor vehicle licenses and registrations	376	0.7	380	0.8	361	0.8	401	0.9
Fees, investment earnings, etc	3,546	7.1	2,875	5.8	3,270	7.0	3,213	7.5
Proceeds of general obligation bonds	1,281	2.6	3,181	6.4	4,492	9.5	1,354	3.1
Proceeds of refunding bonds	-	-	1,428	2.9	633	1.3	1,385	3.2
Proceeds of capital lease	17	-	21	-	30	0.1	58	0.1
Operating transfers	8,305	16.6	6,666	13.5	5,232	11.1	5,493	12.6
Other financing sources	-	-	-	-	-	-	-	-
Total revenues and other financing sources	$ 50,136	100.0	$ 49,402	100.0	$ 47,190	100.0	$ 43,533	100.0


Apportionment of Revenues by Source -
Fiscal Year Ended June 30, 2008
Other transfers and financing sources 16.6%
Proceeds of Bonds, Notes, Leases etc. 2.6%
Fees, investment earnings, etc. 7.1%
Assessments, Licenses and Registrations 2.5%
Lotteries 9.8%
Federal Reimbursements and Grants 19.4%
Taxes 42.1%

2004	% Total	2003	% Total	2002	% Total	2001	% Total	2000	% Total	1999	% Total
$ 16,133	36.4	$ 15,091	35.3	$ 14,428	39.6	$ 16,803	42.8	$ 15,695	41.1	$ 14,321	43.0
6,284	14.2	5,522	12.9	5,267	14.4	4,716	12.0	4,496	11.8	4,213	12.7
2,336	5.3	2,112	4.9	1,812	5.0	1,644	4.2	1,565	4.1	1,456	4.4
4,605	10.4	4,423	10.3	4,425	12.1	4,136	10.5	3,914	10.3	3,570	10.7
773	1.7	645	1.5	572	1.6	590	1.5	462	1.2	546	1.6
376	0.8	383	0.9	326	0.9	311	0.8	285	0.7	281	0.8
3,028	6.8	2,331	5.4	2,178	6.0	1,885	4.8	1,776	4.7	1,433	4.3
1,993	4.5	1,911	4.5	1,489	4.1	1,769	4.5	1,762	4.6	1,015	3.0
3,302	7.4	3,398	7.9	1,501	4.1	999	2.5	-	-	499	1.5
11	-	-	-	10	-	31	0.1	9	0.0	9	0.1
5,531	12.5	6,981	16.3	4,454	12.2	5,566	14.2	7,502	19.7	4,555	13.7
-	-	-	-	3	-	206	0.5	106	0.3	1,056	3.2
$ 44,372	100.0	$ 42,796	100.0	$ 36,477	100.0	$ 39,256	100.0	$ 38,174	100.0	$ 33,273	100.0

Ten-Year Schedule Of Expenditures And Other Financing Uses By Secretariat

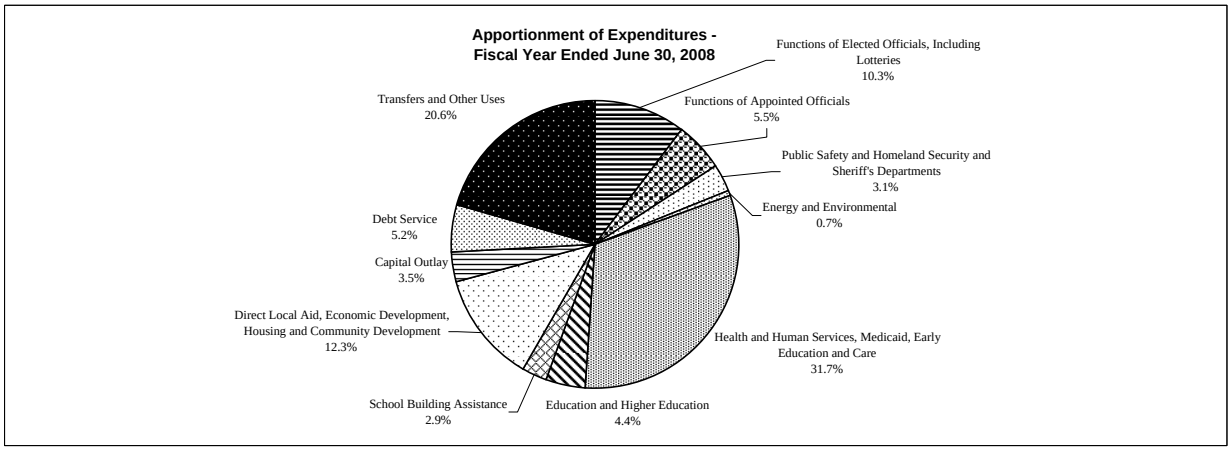
All Governmental Fund Types - Fund Perspective

(Modified Accrual Basis of Accounting)

(Amounts in millions)

	2008	% Total	2007	% Total	2006	% Total	2005	% Total	2004	% Total
Legislature	$ 58	0.11	$ 59	0.12	$ 55	0.12	$ 50	0.1	$ 51	0.1
Judiciary	796	1.57	799	1.63	660	1.47	580	1.4	577	1.4
Inspector General	3	0.01	3	0.01	3	0.01	3	-	2	-
Governor and Lieutenant Governor	9	0.02	5	0.01	5	0.01	5	-	5	-
Secretary of the Commonwealth	51	0.10	52	0.11	44	0.10	46	0.1	43	0.1
Treasurer and Receiver-General	5,089	10.02	4,712	9.63	4,803	10.68	4,706	11.0	4,535	10.8
Auditor of the Commonwealth	19	0.04	18	0.04	18	0.04	16	-	16	-
Attorney General	45	0.09	62	0.13	52	0.12	70	0.2	52	0.1
Ethics Commission	2	-	2	-	1	-	1	-	1	-
District Attorney	111	0.22	102	0.21	94	0.21	84	0.2	86	0.2
Office of Campaign and Political Finance	1	-	2	-	1	-	1	-	1	-
Sheriff's Department	295	0.58	272	0.56	247	0.55	216	0.5	218	0.5
Disabled Persons Protection Commission	2	-	2	-	2	-	2	-	2	-
Board of Library Commissioners	36	0.07	10	0.02	8	0.02	7	-	6	-
Comptroller	14	0.03	14	0.03	14	0.03	12	-	8	-
Administration and finance	1,528	3.01	1,849	3.78	1,651	3.67	1,536	3.6	1,508	3.7
Energy and environmental	312	0.61	318	0.65	282	0.63	238	0.6	225	0.5
Housing and communities development	-	-	402	0.82	536	1.19	483	1.1	470	1.1
Early education and care	560	1.10	518	1.06	482	1.07	-	-	-	-
Health and human services	6,423	12.64	5,907	12.07	5,865	13.04	6,208	14.5	5,868	14.0
Transportation and public works	347	0.68	350	0.72	282	0.63	316	0.7	189	0.5
Elementary and secondary education	2,205	4.34	2,048	4.19	1,978	4.40	2,990	7.0	1,587	3.8
School building assistance	765	1.51	1,411	2.88	2,330	5.18	-	-	-	-
Educational affairs	-	-	-	-	-	-	-	-	-	-
Higher education	131	0.26	126	0.26	106	0.24	114	0.3	99	0.2
Public safety and homeland security	1,407	2.77	1,238	2.53	1,165	2.59	1,053	2.5	1,039	2.5
Housing and economic development*	710	1.40	512	1.05	384	0.85	346	0.8	376	0.9
Labor and workforce development*	308	0.61	81	0.17						
Elder affairs*	-	-	-	-	-	-	-	-	-	-
Consumer affairs*	-	-	-	-	-	-	-	-	-	-
Labor*	-	-	-	-	-	-	-	-	-	-
Medicaid	9,770	19.23	9,044	18.48	8,151	18.12	7,706	18.0	6,909	16.5
Pension	368	0.72	373	0.76	346	0.77	439	1.0	212	0.5
Direct local aid	5,108	10.05	5,072	10.36	4,674	10.39	4,515	10.5	4,861	11.6
Capital outlay:										
Local aid	10	0.02	9	0.02	8	0.02	11	-	16	-
Capital acquisition and construction	1,698	3.34	1,724	3.52	1,754	3.90	1,863	4.3	2,120	5.1
Debt service	2,486	4.89	2,538	5.19	2,088	4.64	1,719	4.0	1,605	3.8
Other financing uses:										
Payments to refunded bond escrow agent	-	-	1,520	3.11	633	1.41	1,153	2.7	2,833	6.8
Transfers	10,141	19.96	7,781	15.90	6,253	13.90	6,419	15.0	6,448	15.4
Total expenditures and other financing uses	$ 50,810	100.0	$ 48,935	100.0	$ 44,975	100.0	$ 42,908	99.9	$ 41,968	100.0
Change in Governmental Fund Balance	$ (674)		$ 467		$ 2,215		$ 624		$ 2,403	

* NOTE: Reflects departmental and functional reorganizations as of the year implemented. Prior years not restated.


Apportionment of Expenditures -
Fiscal Year Ended June 30, 2008
Functions of Elected Officials, Including Lotteries 10.3%
Functions of Appointed Officials 5.5%
Public Safety and Homeland Security and Sheriff's Departments 3.1%
Energy and Environmental 0.7%
Health and Human Services, Medicaid, Early Education and Care 31.7%
Education and Higher Education 4.4%
School Building Assistance 2.9%
Direct Local Aid, Economic Development, Housing and Community Development 12.3%
Capital Outlay 3.5%
Debt Service 5.2%
Transfers and Other Uses 20.6%

2003	% Total	2002	% Total	2001	% Total	2000	% Total	1999	% Total
$ 53	0.1	$ 60	0.2	$ 57	0.2	$ 51	0.1	$ 51	0.2
568	1.3	593	1.5	597	1.6	544	1.4	511	1.6
2	-	2	-	2	-	2	-	2	-
5	-	6	-	6	-	6	-	5	-
39	0.1	36	0.1	45	0.1	42	0.1	33	0.1
4,446	10.3	3,558	9.2	3,335	8.8	3,483	9.2	2,783	8.6
16	-	16	-	15	-	15	-	14	-
55	0.1	62	0.2	36	0.1	34	0.1	49	0.2
1	-	1	-	2	-	1	-	1	-
85	0.2	89	0.2	86	0.2	77	0.2	72	0.2
1	0.0	5	-	1	-	1	-	1	-
215	0.5	216	0.6	201	0.5	178	0.5	134	0.4
2	0.0	2	-	2	-	2	-	2	-
6	-	10	-	11	-	10	-	10	-
8	-	8	-	8	-	8	-	8	-
1,202	2.8	1,361	3.5	1,202	3.3	1,192	3.1	1,056	3.3
236	0.5	268	0.7	253	0.7	241	0.6	232	0.7
476	1.1	449	1.2	442	1.2	405	1.1	356	1.1
-	-	-	-	-	-	-	-	0	-
5,327	12.3	5,386	13.9	5,622	15.0	5,324	14.0	5,160	15.9
218	0.5	139	0.4	162	0.4	228	0.6	137	0.4
1,546	3.6	1,506	3.9	1,492	3.9	1,353	3.6	1,263	3.9
-	-	-	-	-	-	-		-	-
-	-	-	-	-	-	-	-	-	-
111	0.3	119	0.3	136	0.4	111	0.3	97	0.3
991	2.3	999	2.6	955	2.5	879	2.3	860	2.6
29	0.1	32	0.1	51	0.1	38	0.1	57	0.2
315	0.7	304	0.8	241	0.6	217	0.6	197	0.6
55	0.1	63	0.2	71	0.2	70	0.2	68	0.2
330	0.8	284	0.7	172	0.5	188	0.5	166	0.5
6,177	14.3	5,979	15.4	4,761	12.6	4,381	11.5	3,829	11.8
290	0.7	238	0.6	318	0.8	398	1.0	324	1.0
5,103	11.8	5,231	13.5	5,012	13.2	4,717	12.4	4,405	13.6
15	-	21	0.1	34	0.1	47	0.1	73	0.2
2,526	5.8	2,562	6.6	2,566	6.8	2,469	6.5	2,602	8.0
1,467	3.4	1,382	3.6	1,408	3.7	1,237	3.3	1,212	3.7
3,398	7.9	1,277	3.3	999	2.6	-	-	499	1.5
7,931	18.3	6,551	16.9	7,526	19.9	10,073	26.5	6,193	19.1
$ 43,245	100.0	$ 38,815	100.0	$ 37,827	100.0	$ 38,022	100.0	$ 32,462	100.0
$ (447)		$ (1,788)		$ 1,429		$ 153		$ 810	

Personal Income by Industry
Last Ten Calendar Years

(Amounts in millions)

	2007	2006	2005	2004	2003
Total personal income	**$ 324,360**	**$ 297,755**	**$ 279,635**	**$ 270,145**	**$ 253,528**
Unearned Income	68,644	61,624	54,785	51,770	49,759
Farm earnings	107	101	121	115	111
Nonfarm earnings	255,609	236,030	224,729	218,260	203,659
Private earnings	**226,070**	**208,522**	**198,825**	**192,668**	**180,248**
Agricultural services, forestry, fishing	538	499	526	489	437
Mining	407	384	565	326	332
Construction	12,819	13,172	12,963	12,303	11,808
Manufacturing	**28,498**	**26,242**	**26,009**	**25,807**	**25,616**
Durable goods	19,650	18,514	18,344	18,614	18,192
Nondurable goods	8,848	7,728	7,665	7,193	7,424
Transportation and utilities	6,224	5,997	5,424	5,463	5,206
Wholesale trade	13,271	12,642	11,450	11,516	10,931
Retail trade	12,601	12,496	12,771	12,614	12,047
Services	151,712	137,091	129,116	124,152	113,871
Government	**29,539**	**27,508**	**25,904**	**25,592**	**23,411**
Federal, civilian	5,037	4,877	4,659	4,600	4,223
Military	1,028	983	1,031	931	661
State and local	23,473	21,647	20,214	20,061	18,527
Personal income tax revenue (statutory basis)	$ 11,400	$ 10,483	$ 9,690	$ 8,830	$ 8,026
Total personal income	$ 324,360	$ 297,755	$ 279,635	$ 270,145	$ 253,528
Average Effective Rate	3.5%	3.5%	3.5%	3.3%	3.2%
Highest Income Tax Rate	5.3%	5.3%	5.3%	5.3%	5.3%

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System and the Massachusetts Department of Revenue. Average effective rate is individual income tax revenue divided by personal income.

2002	2001	2000	1999	1998
$ 249,889	**$ 249,243**	**$ 240,209**	**$ 216,221**	**$ 203,987**
50,390	47,974	44,369	41,094	42,370
97	107	116	106	107
199,402	201,162	195,723	175,021	161,510
176,504	**179,116**	**174,388**	**154,549**	**142,198**
410	400	960	871	769
298	360	141	136	110
11,779	11,463	10,097	8,886	7,839
25,519	**26,675**	**31,272**	**27,798**	**26,378**
18,346	19,685	21,622	18,777	17,749
7,173	6,989	9,649	9,021	8,629
5,140	5,238	9,506	8,542	7,952
10,350	10,806	13,411	12,378	11,031
11,660	11,358	15,308	14,231	13,397
111,346	112,815	93,694	81,706	74,721
22,898	**22,046**	**21,335**	**20,472**	**19,312**
4,171	4,023	3,894	3,766	3,545
597	562	556	534	532
18,130	17,461	16,885	16,172	15,235
$ 7,913	$ 9,903	$ 9,042	$ 8,037	$ 8,032
$ 249,889	$ 249,243	$ 240,209	$ 216,221	$ 203,987
3.2%	4.0%	3.8%	3.7%	3.9%
5.3%	5.6%	5.85%	5.95%	5.95%

Commonwealth of Massachusetts
Personal Income Tax Filers and Liability by Income Level
Calendar (Tax) Years 2006 and 1997

(Amounts, except income level are in thousands)

Calendar Year 2006 (or Fiscal Year 2007)

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
$100,001 and higher	523,580	15%	$ 6,757,298	65%
$75,001 - $100,000	281,678	8%	1,058,148	10%
$50,001 - $75,000	454,225	13%	1,159,431	11%
$25,001 - $50,000	789,690	23%	1,067,350	10%
$10,001 - $25,000	655,121	19%	286,298	3%
$10,000 and lower	698,293	21%	32,821	0%
Total	3,402,587	100%	$ 10,361,346	100%

Calendar Year 1997 (or Fiscal Year 1998)

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
$100,001 and higher	244,784	8%	$ 3,324,155	47%
$75,001 - $100,000	197,803	6%	881,085	12%
$50,001 - $75,000	407,785	13%	1,244,269	17%
$25,001 - $50,000	794,818	26%	1,344,323	18%
$10,001 - $25,000	743,997	24%	463,574	6%
$10,000 and lower	693,034	22%	29,059	0%
Total	3,082,221	100%	$ 7,286,465	100%

Source: Massachusetts Department of Revenue - data is from last closed tax years.

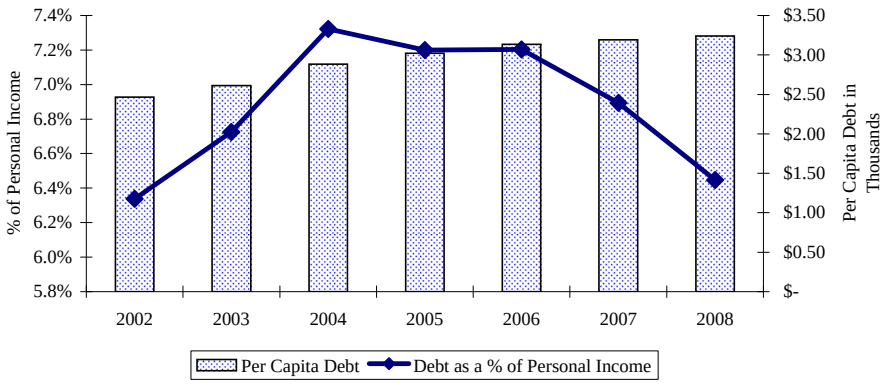
Seven -Year Schedule Of Per Capita General Long-Term Bonded Debt and Capital Leases

(Amounts in thousands, except for percentages)

Fiscal year ended June 30	Governmental Activities Bonded Debt [2]	Governmental Activities Capital Leases [2]	Business-Type Activities Bonded Debt [2]	Business-Type Activities Capital Leases [2]	Total Primary Government	Prior Year Personal Income	Massachusetts Resident Population [1]	Debt as a Percentage of Personal Income	Amount of Debt Per Capita
2008	$ 18,734,440	$ 83,741	$ 2,026,541	$ 67,631	$ 20,912,353	$ 324,360,000	6,450	6.4%	$ 3.24
2007	18,736,961	81,351	1,624,617	83,443	20,526,372	297,754,674	6,434	6.9%	3.19
2006	18,461,406	74,552	1,519,727	87,798	20,143,483	279,635,404	6,429	7.2%	3.13
2005	17,856,799	71,018	1,421,557	101,596	19,450,970	270,144,644	6,434	7.2%	3.02
2004	17,382,172	57,900	1,049,095	73,971	18,563,138	253,527,948	6,439	7.3%	2.88
2003	15,962,506	75,754	673,398	91,934	16,803,592	249,889,456	6,432	6.7%	2.61
2002	14,955,135	91,146	670,432	79,880	15,796,593	249,243,450	6,408	6.3%	2.47

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. *Source: - HTTP://www.fedstats.gov (US Census Bureau.)* (2) Excludes Massachusetts School Building Authority debt. Amounts of bonded debt for governmental activities are the amount of debt for statutory debt calculation purposes. Capital leases above exclude the lease between the Commonwealth and the Route 3 North Transportation Improvement Association, a discretely presented component unit. Business - Type Activities includes notes payable of Institutions of Higher Education.

Seven - Year Per Capita Debt and Capital Leases



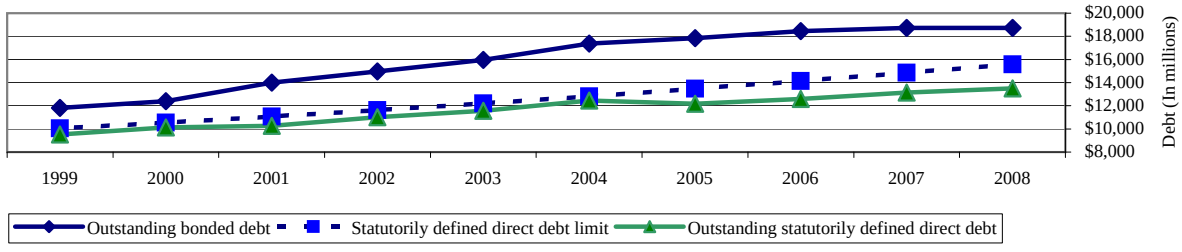
Ten-Year Schedule of Outstanding Direct Debt and Statutory Debt Limit

(Amounts in thousands)

	2008	2007	2006	2005
Outstanding debt for Statutory Purposes as of June 30 **(2)**	$ 18,734,440	$ 18,736,961	$ 18,461,406	$ 17,856,799
Less amounts excluded by statute:				
Central artery project bonds principal	(1,434,654)	(1,462,870)	(1,476,287)	(1,336,741)
Chapter 5 of the Acts of 1992 bonds principal	-	-	-	-
County debt assumed	(375)	(450)	(525)	(600)
Premium / (Discount) and issuance costs	123,335	102,048	112,673	70,937
Grant anticipation notes (GANs) principal **(1)**	(1,536,206)	(1,666,690)	(1,789,876)	(1,908,015)
School Modernization and Reconstruction Trust bonds	(946,285)	(946,285)	(1,000,002)	(500,000)
Convention Center bonds principal	(482,953)	(617,226)	(643,715)	(693,400)
MBTA forward funding bonds principal	(309,203)	(368,873)	(416,830)	(511,546)
Special obligation bonds principal **(1)**	(643,715)	(643,715)	(647,551)	(792,148)
Outstanding statutorily defined direct debt	$ 13,504,384	$ 13,132,900	$ 12,599,293	$ 12,185,286
Statutorily defined direct debt limit	$ 15,585,725	$ 14,843,547	$ 14,136,712	$ 13,463,535
Debt margin (Debt limit less direct debt)	$ 2,081,341	$ 1,710,647	$ 1,537,418	$ 1,278,249
Debt margin as a percentage of direct debt limit	13.35%	11.52%	10.88%	9.49%

(1) Inclusive of Crossover Refunding Amounts.
(2) Exclusive of the Massachusetts School Building Authority debt.

Outstanding Bonded Debt, Statutory Direct Debt and Statutory Debt Limit
1999 - 2008



2004	2003	2002	2001	2000	1999
$ 17,382,172	$ 15,962,506	$ 14,955,135	$ 13,999,454	$ 12,383,101	$ 11,808,461
(1,066,638)	(1,386,869)	(838,193)	(999,995)	-	-
-	(10,600)	(22,043)	(71,054)	(114,761)	(130,069)
(675)	(855)	(1,115)	(1,375)	(2,105)	(2,345)
1,120	(68,718)	(181,910)	(282,829)	(358,938)	(677,326)
(1,908,015)	(1,500,000)	(1,500,000)	(1,500,000)	(899,991)	(899,991)
-	-	-	-	-	-
-	-	-	-	-	-
(601,027)	(680,869)	(625,000)	(325,000)	(325,000)	-
(1,347,882)	(748,124)	(772,812)	(539,242)	(561,335)	(582,410)
$ 12,459,055	$ 11,566,472	$ 11,014,062	$ 10,279,959	$ 10,120,971	$ 9,516,320
$ 12,822,414	$ 12,211,823	$ 11,630,307	$ 11,076,483	$ 10,549,032	$ 10,046,697
$ 363,359	$ 645,352	$ 616,245	$ 796,524	$ 428,061	$ 530,377
2.83%	5.28%	5.30%	7.19%	4.06%	5.28%

Ten Year Schedule of Pledged Revenue Coverage

Special Obligation Highway Bonds (Gasoline Taxation), Convention Center Bonds (Tax Incremental Financing) and Grant Anticipation Notes (Federal Highway Grants)

(Statutory Basis, Amounts in Thousands, Except for Federal Highway Appropriations which are in Billions and on a federal fiscal year and Except for Ratios)

	2008	2007	2006	2005
Highway Bonds				
These bonds are secured by a pledge of 6.86¢ fo the 21¢ state motor fuels excise tax for FY2008 and before. For FY2009 and beyond, the pledge is up to 10¢ of the tax.				
Tax Receipts……	$ 194,785	$ 148,047	$ 239,469	$ 196,210
Operating Expenses……	-	-	6,913	10,052
Net Available Revenues……	$ 194,785	$ 148,047	$ 232,556	$ 186,158
Annual Debt Service……	$ 56,535	$ 58,867	$ 56,545	$ 48,378
Debt Service Coverage Ratio……	3.45	2.51	4.11	3.85
Ratings History of Bonds*……	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA	AA-, Aa3, AA
Convention Center Bonds				
These bonds are secured by amounts payable to the Convention Center Fund, which include certain hotel tax receipts in Boston, Cambridge, Springfield, surcharges on car rentals, parking, sightseeing tours and cruises and sales tax receipts those cities.				
Receipts……	$ 78,984	$ 66,347	$ 55,052	$ 50,561
Operating Expenses……	21,483	33,645	16,613	19,843
Net Available Revenues……	$ 57,501	$ 32,702	$ 38,439	$ 30,718
Annual Debt Service……	$ 35,600	$ 34,486	$ 33,964	$ 18,350
Debt Service Coverage Ratio……	1.62	0.95	1.13	1.67
Ratings History of Bonds*……	A2, A	A2, A	A2, A	A2, A
Grant Anticipation Notes				
These notes are secured by all federal highway reimbursements into the Grant Anticipation Note Trust fund, released by the Commonwealth once all debt service and reserve funding obligations of the notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than $17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund to be used for debt service, subject to appropriation.				
Receipts……	$ 463,588	$ 462,484	$ 451,284	$ 449,331
Operating Expenses……	-	-	-	-
Net Available Revenues……	$ 463,588	$ 462,484	$ 451,284	$ 449,331
Annual Debt Service……	$ 211,709	$ 211,712	$ 211,712	$ 95,223
Debt Service Coverage Ratio……	2.19	2.18	2.13	4.72
Ratings History of Bonds*……	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA
Amount appropriated for national federal highway spending (federal fiscal year) (billions) (1) ..	$ 37,621	$ 34,914	$ 33,975	$ 31,433

*(1) Source: The Federal Budget for Fiscal 2008, Historical Tables, Table 9.6, pages 179 - 180. 2007 and 2008 are estimates. *Uninsured rating, if available.*

2004	2003	2002	2001	2000	1999
$ 196,380	$ 194,232	$ 191,559	$ 188,763	$ 187,208	$ 183,771
6,172	7,007	-	-	-	-
$ 190,208	$ 187,225	$ 191,559	$ 188,763	$ 187,208	$ 183,771
$ 124,751	$ 52,123	$ 52,123	$ 52,120	$ 52,122	$ 52,117
1.52	3.59	3.68	3.62	3.59	3.53
AA-, Aa3, AA	AA-, Aa3, AA	AA-	AA-	AA-	AA-
$ 35,103					
81,644					
$ (46,541)					
$ -					
NMF					
A2, A					
$ 599,040	$ 507,716	$ 497,453	$ 460,376	$ 486,618	$ 580,320
29,208	23,546	8,993	-	-	-
$ 569,832	$ 484,170	$ 488,460	$ 460,376	$ 486,618	$ 580,320
$ 93,466	$ 74,822	$ 74,821	$ 61,384	$ 42,570	$ 37,501
6.10	6.47	6.53	7.50	11.43	15.47
Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA	Aa3, AA
$ 30,188	$ 30,379	$ 30,115	$ 27,206	$ 24,909	$ 22,722

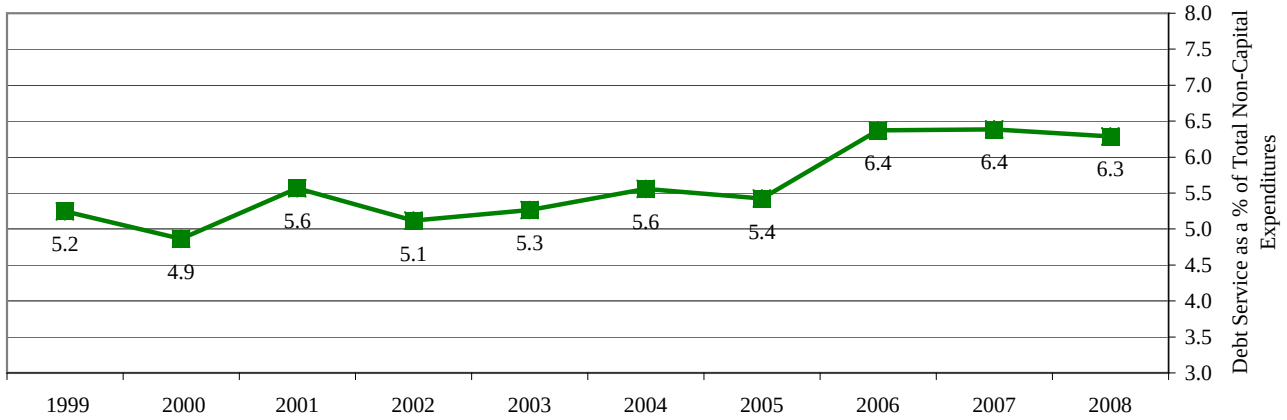
Ten-Year Schedule Of Percentage Of Annual Debt Service Expenditures For General Bonded Debt To Total Non-Capital Expenditures - Fund Perspective
All Governmental Fund Types

(Amounts in millions)

Fiscal year ended June 30	Debt service	Total Non-capital expenditures	Ratio
2008	$ 2,239	$ 35,609	6.3
2007	2,166	33,918	6.4
2006	2,028	31,831	6.4
2005	1,719	31,700	5.4
2004	1,605	28,888	5.6
2003	1,467	27,858	5.3
2002	1,382	26,998	5.1
2001	1,408	25,295	5.6
2000	1,237	25,433	4.9
1999	1,212	23,097	5.2

Amounts are shown net of Massachusetts School Building Authority expenditures and debt service. Business type activities debts are secured solely by leases between the Institutions of Higher Education and two blended building authorities.

Debt Service to Non-Capital Expenditures Ratio 1999- 2008



Component Units Revenue Bond Coverage
For The Last Ten Fiscal Years

(Amounts in thousands)

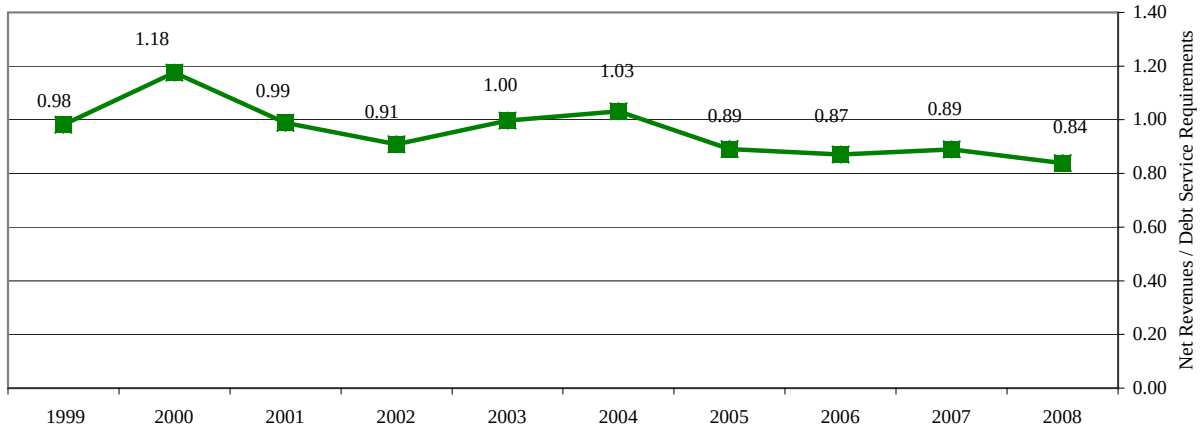
Fiscal year ended June 30	Net revenues [1]	Debt service requirements [2]	Coverage Ratio
2008	$ 728,445	$ 868,331	0.84
2007	870,919	978,819	0.89
2006	717,190	823,406	0.87
2005	648,282	727,316	0.89
2004	700,677	679,457	1.03
2003	663,234	665,538	1.00
2002	716,951	789,318	0.91
2001	520,850	526,605	0.99
2000	600,812	510,876	1.18
1999	393,785	401,406	0.98
1998	372,672	344,884	1.08

(1) Net revenues represent the regular recurring operating income (loss) plus operating grants transfers and depreciation of only those Authorities with revenue bonds outstanding

(2) Debt service requirements represent total debt service payments made less debt service paid on short-term borrowings of only those Authorities with revenue bonds outstanding

Source: Office of the Comptroller

Component Units Revenue Bond Coverage 1999 - 2008



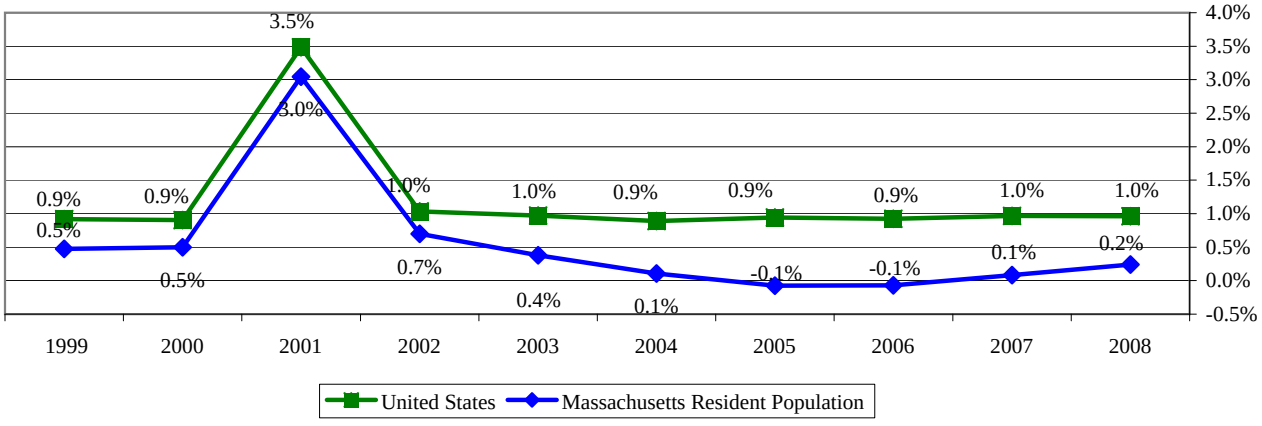
Ten-Year Schedule Of Massachusetts And United States Resident Population

(Amounts in thousands)

Year	United States	% Change	Massachusetts Resident Population [1]	% Change	Massachusetts as % of U.S.
2008	301,621	1.0%	6,450	0.2%	2.1%
2007	298,755	1.0%	6,434	0.1%	2.2%
2006	295,896	0.9%	6,429	-0.1%	2.2%
2005	293,192	0.9%	6,434	-0.1%	2.2%
2004	290,448	0.9%	6,439	0.1%	2.2%
2003	287,888	1.0%	6,432	0.4%	2.2%
2002	285,112	1.0%	6,408	0.7%	2.2%
2001	282,194	3.5%	6,363	3.0%	2.3%
2000	272,691	0.9%	6,175	0.5%	2.3%
1999	270,248	0.9%	6,144	0.5%	2.3%

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. *Source: - HTTP://www.fedstats.gov (US Census Bureau.). FY01 reflects census 2000 data.*

Massachusetts and United States Estimated Year- to- Year Population Change
1999 - 2008

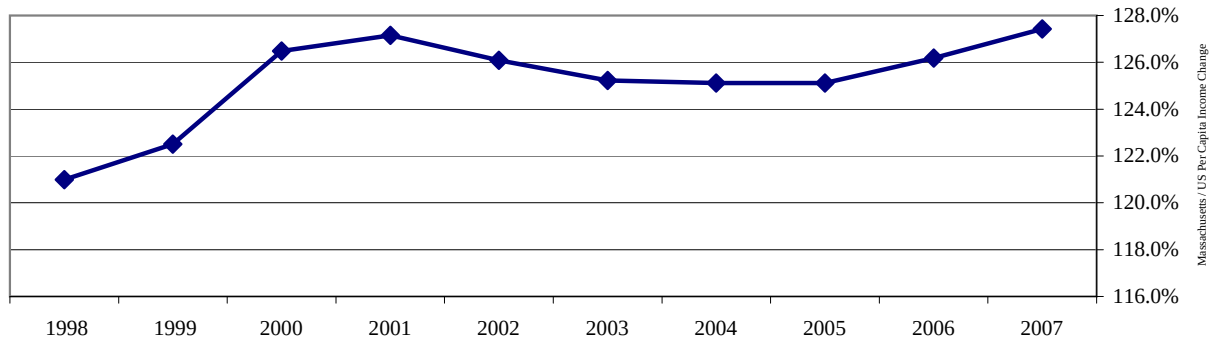


Ten-Year Schedule Of Massachusetts And United States Resident Per Capita Net Income

Year	United States (1)	% Change	Massachusetts (1)	% Change	Massachusetts as % of U.S.
2007	38,564	5.0%	49,142	6.0%	127.4%
2006	36,744	6.0%	46,363	6.9%	126.2%
2005	34,650	4.6%	43,355	4.6%	125.1%
2004	33,123	5.1%	41,444	5.1%	125.1%
2003	31,504	2.2%	39,449	1.5%	125.2%
2002	30,821	0.8%	38,862	0.0%	126.1%
2001	30,574	2.4%	38,875	3.0%	127.2%
2000	29,845	6.8%	37,750	10.3%	126.5%
1999	27,939	3.9%	34,227	5.2%	122.5%
1998	26,883	3.9%	32,524	3.8%	121.0%

Source: Bureau of Economic Analysis, US Department of Commerce. Revised state personal income estimates for 2005-2007 were released September 18, 2008. These estimates incorporate newly available state-level source data. Per capita personal income and per capita disposable personal income were computed using midyear population estimates of the Census Bureau, released December 2007. The next state annual personal income release is scheduled for March 2009.

Massachusetts vs. United States Year- to- Year Per Capita Net Income Change
Calendar Years 1998 - 2007



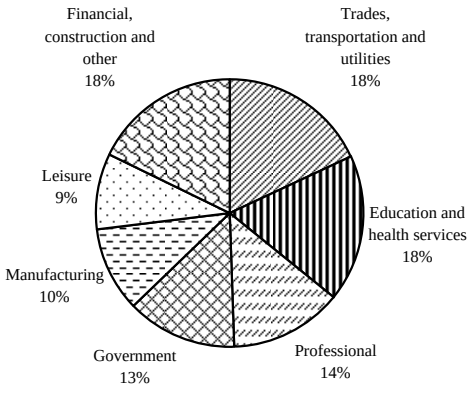
Nonagricultural Employment By Sector and Industry
In Massachusetts And The United States For 2008

(Amounts in thousands)

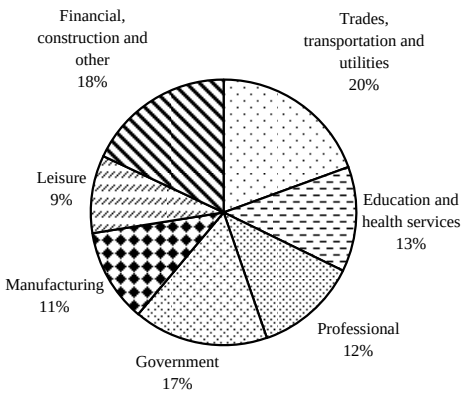
Type of industry	Massachusetts	% of MA Total	United States	% of U.S. Total	MA % vs. U.S. %
Manufacturing - Durable and nondurable goods	292	8.9%	13,536	9.8%	90.2%
Non-manufacturing:					
Construction	135	4.1%	7,197	5.2%	78.3%
Trade, Transportation and Utilities Employment	568	17.3%	26,436	19.2%	89.8%
Education and health services	637	19.3%	18,875	13.7%	140.9%
Financial activities	223	6.8%	8,213	6.0%	113.6%
Information activities	89	2.7%	2,996	2.2%	124.7%
Leisure and hospitality services	305	9.2%	13,868	10.1%	91.8%
Professional and business services	489	14.9%	17,943	13.0%	114.0%
Natural Resources, Mining and Other	120	3.6%	6,106	4.4%	82.1%
Federal, state and local government	436	13.2%	22,496	16.3%	81.0%
Total Non-manufacturing	**3,003**	**91.1%**	**124,130**	**90.2%**	**101.1%**
Total	**3,295**	**100.0%**	**137,666**	**100.0%**	

Source: - Federal Reserve Bank of Boston - Bureau of Labor Statistics, September, 2008 for June 2008.

Massachusetts Employment by Industry June 2008



United States Employment by Industry June 2008



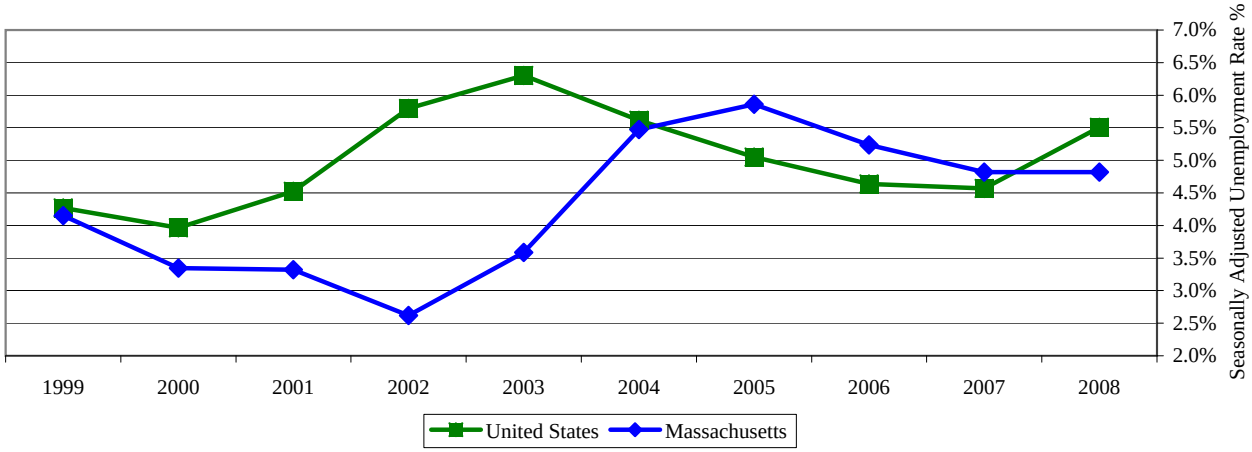
Ten-Year Schedule Of Annual Average Civilian Labor Force, Unemployment And Unemployment Rates For Massachusetts And The United States

(Amounts in thousands)

	Massachusetts			United States			
Year	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	Massachusetts Rate as % of U.S. Rate
2008	3,406	164	4.8%	154,390	8,499	5.5%	87.6%
2007	3,371	162	4.8%	153,085	6,997	4.6%	105.4%
2006	3,381	177	5.2%	151,386	7,017	4.6%	113.0%
2005	3,408	200	5.9%	149,244	7,536	5.0%	116.0%
2004	3,468	190	5.5%	147,454	8,280	5.6%	97.5%
2003	3,399	122	3.6%	147,056	9,266	6.3%	57.0%
2002	3,364	88	2.6%	144,808	8,393	5.8%	45.2%
2001	3,357	112	3.3%	143,357	6,484	4.5%	73.5%
2000	3,318	111	3.3%	142,591	5,651	4.0%	84.4%
1999	3,294	137	4.1%	139,329	5,951	4.3%	97.1%

Source: - Federal Bureau of Labor Statistics, October, 2008. Amounts and rates previous from 2001 through 2004 have been restated for all data due to new benchmarking by the Bureau of Labor Statistics during 2001 to 2004. The differential between average labor force and nonagricultural employment is agricultural employment. Seasonally adjusted.

Massachusetts and United States Unemployment Rates
Seasonally Adjusted June 1999 - June 2008



Largest Private Sector Massachusetts Employers 2008 and 1999

(Alphabetical Order)

2008			1999		
Employer	Headquarters	Product or Service	Employer	Headquarters	Product or Service
Bay State Medical Center, Inc.	Springfield	Hospital	Bank Boston	Boston	Banking
Beth Israel Deaconess Medical Center	Boston	Hospital	Bell Atlantic	Boston	Utility
Boston Medical Center Corporation	Boston	Hospital	Beth Israel Deaconess Medical Center	Boston	Hospital
Boston University	Boston	University	Big Y Foods, Inc.	Springfield	Supermarket
Brigham and Women's Hospital, Inc.	Boston	Hospital	Boston University	Boston	University
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket	Brigham and Women's Hospital, Inc.	Boston	Hospital
EMC Corporation	Hopkinton	Computer Storage & Peripherals	Demoulas Supermarkets	Tewksbury	Supermarket
General Hospital Corporation	Boston	Hospital	Digital Equipment Corporation	Westborough	Technology
Massachusetts Institute of Technology	Cambridge	University	Friendly Ice Cream Corporation	Wilbraham	Restaurants
New England Medical Center	Boston	Hospital	President and Fellows of Harvard College	Boston	University
President and Fellows of Harvard College	Boston	University	Massachusetts Institute of Technology	Cambridge	University
Raytheon Company	Lexington	Electronics / Defense	Massachusetts General Hospital	Boston	Hospital
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket	Polaroid Corporation	Cambridge	Photography
Southcoast Hospitals Group	New Bedford	Hospital	Raytheon Company	Lexington	Electronics / Defense
State Street Corp.	Boston	Banking	Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket
The Children's Hospital Corporation	Boston	Hospital	Star Markets Company Inc.	Boston	Supermarket
Tufts University	Boston	University	State Street Bank and Trust	Boston	Banking
UMASS Memorial Medical Center, Inc.	Worcester	Hospital			
Verizon New England, Inc.	Boston	Telecommunications			

Sources: - Massachusetts Department of Unemployment Assistance- March 2008 survey. In addition, Bank of America NA,, Home Depot USA, Inc., CVS Corporation, S&S Credit Company, Inc., Target Corp, United Parcel Service, Inc and Wal-Mart Associates, Inc. are all large Massachusetts employers, but are headquartered outside of Massachusetts. Verizon New England is a subsidiary of Verizon Communications, headquartered in New York.

Standard and Poors 500 Companies Headquartered in Massachusetts

Company	Stock Symbol	Headquarters	Product or Service	Worldwide Employees	Latest Audited Revenues ($millions)	Fortune 500 Rank 2008	Fortune 500 Rank 2007
Raytheon Company (New)	RTN	Lexington	Aerospace & Defense	72,100	$ 21,301	112	96
Staples Inc.	SPLS	Framingham	Specialty Stores	75,788	19,373	128	126
TJX Companies Inc.	TJX	Framingham	Apparel Retail	129,000	18,647	132	133
EMC Corporation	EMC	Hopkinton	Computer Storage & Peripherals	37,700	13,230	201	224
Thermo Fisher Scientific	TMO	Waltham	Semiconductors	33,000	9,746	269	-
Boston Scientific	BSX	Natick	Health Care Equipment	27,500	8,357	310	308
State Street Corp.	STT	Boston	Diversified Financial Services	27,110	8,329	225	263
Genzyme Corp	GENZ	Cambridge	Health Care	10,000	3,814	-	-
Biogen IDEC Inc.	BIIB	Cambridge	Electronic Equipment & Instruments	3,750	3,172	-	-
Analog Devices	ADI	Waltham	Electronic Equipment & Instruments	9,600	2,514	-	-
PerkinElmer, Inc.	PKI	Wellesley	Biotechnology	8,700	1,787	-	-
Millipore Corp.	MIL	Billerica	Electronic Equipment & Instruments	6,000	1,532	-	-
Boston Properties	BXP	Boston	Financials	660	1,503	-	-
Waters Corporation	WAT	Milford	Electronic Equipment & Instruments	4,956	1,473	-	-
American Tower Corp.	AMT	Boston	Telecommunication Services	3,600	1,457	-	-
Teradyne, Inc.	TER	North Reading	Semiconductor Equipment	3,600	1,170	-	-
Novell Inc.	NOVL	Waltham	Information Technology	4,549	945	-	-

Sources: - Standard and Poors (from Standardandpoors.com) , the Boston Globe (May 2008) and Fortune Magazine (from fortune.com). Massachusetts Mutual Life Insurance, Liberty Mutual Insurance Group, BJ's Wholesale Club and Global Partners are part of the Fortune 500, but are not part of the Standard & Poors 500.

Full Time Equivalent Employees
By Function / Program
Last Ten Years

Functions / Programs	2008	2007	2006	2005	2004
General Government……	6,368	6,204	6,177	5,750	5,449
Judiciary……	8,021	7,993	7,635	7,467	7,099
Environmental and recreation……	2,928	2,847	2,686	2,744	2,612
Health and human services……	23,322	22,972	22,935	22,855	22,229
Transportation and construction……	2,892	1,903	2,708	2,759	1,794
Education……	615	617	651	587	569
Public safety and homeland security……	14,242	14,550	13,517	13,152	13,578
Energy and economic development……	2,302	2,339	2,264	2,299	2,300
Higher Education:					
University of Massachusetts……	13,651	13,602	13,360	12,807	12,356
State colleges……..	4,519	4,495	4,301	4,224	3,914
Community colleges……	4,775	4,689	4,603	4,523	4,219
Totals……	**83,636**	**82,211**	**80,837**	**79,167**	**76,120**
Percentage Change ……	**2%**	**2%**	**2%**	**4%**	**-3%**

Source: Office of the State Comptroller, FY 2001 to FY 2007, University of Massachusetts reported by the University.

"Education" includes the Board of Higher Education. For FY2005, Transporation and Construction includes the Registry of Motor Vehicles (formerly Public Safety.) Measurement date is the closest pay period end to June 30. FTE's are rounded. Higher education FTE's exclude part time contractors paid from campus - based systems.

2003	2002	2001	2000	1999	Change - 2008 from 1999
5,644	5,724	6,261	6,286	6,034	6%
7,198	7,393	8,159	8,054	7,836	2%
2,814	2,949	3,161	3,147	3,100	-6%
23,087	23,269	25,143	25,215	24,899	-6%
1,843	1,820	2,094	2,171	2,223	30%
579	545	530	516	491	25%
13,964	14,446	14,752	14,430	13,703	4%
2,322	2,382	2,468	2,504	2,506	-8%
12,513	11,821	12,572	12,010	12,467	9%
3,957	3,812	4,026	3,981	3,914	15%
4,408	4,340	4,720	4,580	4,470	7%
78,328	**78,501**	**83,886**	**82,894**	**81,642**	2%
0%	**-6%**	**1%**	**2%**	**2%**	

Massachusetts Road Inventory
Calendar Year End, Lane Miles by Type
Last Ten Calendar Years

Calendar Year	Interstate	Arterial	Collector	Local	Total	% Change	Total Urban	Total Rural
2007	3,213	14,993	9,566	43,612	71,383	0.17%	80.9%	19.1%
2006	3,209	14,958	9,567	43,527	71,261	0.31%	81.0%	19.0%
2005	3,202	14,966	9,573	43,303	71,044	0.11%	81.0%	19.0%
2004	3,202	14,929	9,584	43,260	70,967	0.96%	81.0%	19.0%
2003	3,186	13,513	10,950	42,654	70,295	0.00%	68.7%	31.3%
2002	3,186	13,513	10,950	42,654	70,295	0.21%	68.7%	31.3%
2001	3,186	13,478	10,946	42,539	70,149	0.28%	68.7%	31.3%
2000	3,184	13,498	10,936	42,339	69,956	0.18%	68.7%	31.3%
1999	3,182	13,509	10,935	42,207	69,833	0.20%	68.7%	31.3%
1998	3,173	13,536	10,935	42,049	69,694	0.75%	68.8%	31.2%

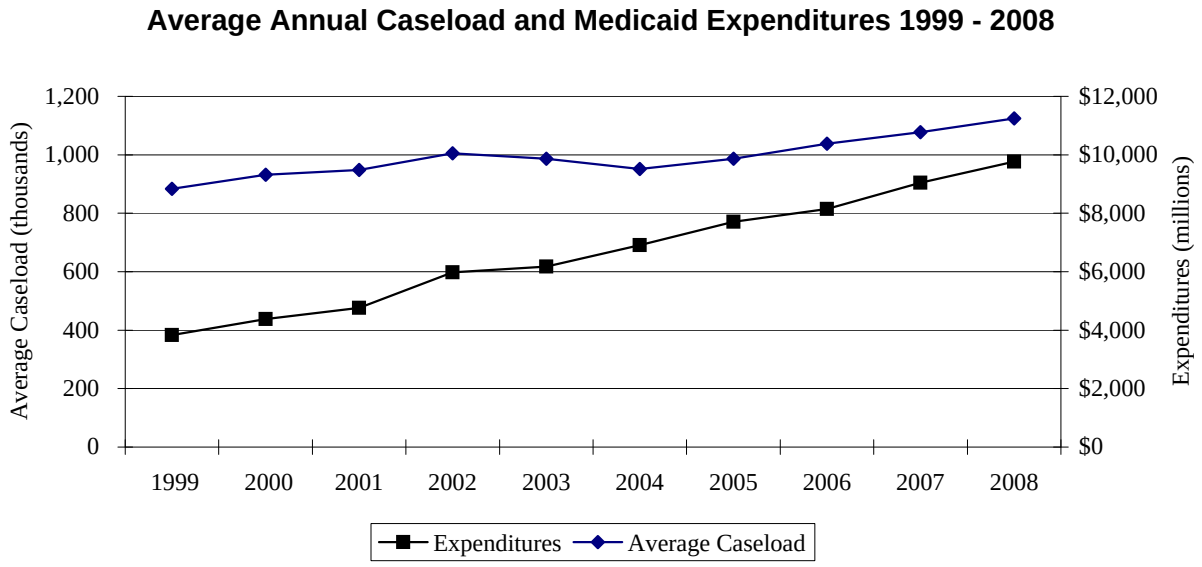
Source: Massachusetts Highway Department, Bureau of Transportation Planning and Development Annual Road Inventory Reports, Lane Miles Table 8. Exclusive of shoulders.

Average Annual Medicaid Caseload and Medicaid Expenditures - Fund Perspective
Last Ten Fiscal Years

(Caseload amounts in thousands, Expenditure amounts in Millions)

Fiscal year ended June 30	Average Annual Caseload	Medicaid expenditures	Average Expenditures per Case
2008	1,124	$ 9,770	$ 8,690
2007	1,077	9,044	8,397
2006	1,038	8,151	7,853
2005	986	7,706	7,815
2004	952	6,909	7,258
2003	987	6,177	6,261
2002	1,005	5,979	5,951
2001	948	4,761	5,020
2000	931	4,381	4,703
1999	883	3,829	4,336

Source: Executive Office for Health and Human Services.



Massachusetts Real Property Owned and Leased
Annual Inventory, Acreage, Improvements and Square Footage
Last Ten Years

Functions / Programs	Survey Year 2008	Survey Year 2007	Survey Year 2006	Survey Year 2005	Survey Year 2004
General Government:					
Total Acreage	1,858	1,681	2,050	2,772	2,486
Number of Improvements	163	84	232	300	306
Gross square footage	5,736,028	4,767,751	6,745,962	8,429,827	8,315,791
Judiciary:					
Total Acreage	145	135	118	117	114
Number of Improvements	71	71	68	68	68
Gross square footage	5,080,836	4,889,645	4,351,128	4,884,206	4,884,206
Environmental and recreation:					
Total Acreage	591,511	586,173	569,282	558,347	552,857
Number of Improvements	2,162	2,156	2,159	2,168	1,916
Gross square footage	7,242,870	7,185,678	7,057,840	7,039,038	6,677,076
Economic development:					
Total Acreage	2	2	2	2	2
Number of Improvements	6	6	6	6	6
Gross square footage	77,642	77,642	77,642	76,812	76,812
Health and human services:					
Total Acreage	7,259	7,604	7,615	7,311	7,284
Number of Improvements	980	1,059	1,001	992	997
Gross square footage	12,270,433	13,371,858	12,333,804	12,251,382	12,493,551
Transportation and public works:					
Total Acreage	6,930	6,933	7,217	7,175	7,513
Number of Improvements	915	914	910	908	909
Gross square footage	4,876,936	4,856,942	4,845,365	4,812,965	4,821,599
Education:					
Total Acreage	233	233	233	233	234
Number of Improvements	43	43	43	43	44
Gross square footage	272,352	272,352	272,352	272,352	272,352
Public safety and homeland security:					
Total Acreage	18,324	18,319	17,530	17,515	17,454
Number of Improvements	1,023	1,031	1,026	1,038	1,037
Gross square footage	12,631,497	12,768,250	12,885,742	13,137,177	13,131,414
Higher Education:					
Total Acreage	7,149	7,133	7,089	7,138	7,163
Number of Improvements	940	932	933	941	939
Gross square footage	31,197,929	30,947,996	30,870,743	30,997,427	30,728,820
Totals for Commonwealth (exclusive of Component Units):					
Total Acreage	**633,412**	**628,212**	**611,136**	**600,609**	**595,107**
Number of Improvements	**6,303**	**6,296**	**6,378**	**6,464**	**6,222**
Gross square footage	**79,386,523**	**79,138,114**	**79,440,578**	**81,901,186**	**81,401,621**
Percentage Change for Commonwealth:					
Acreage	**0.8%**	**2.8%**	**1.8%**	**0.9%**	**2.1%**
Improvements	**0.1%**	**-1.3%**	**-1.3%**	**3.9%**	**-0.7%**
Gross square footage	**0.3%**	**-0.4%**	**-3.0%**	**0.6%**	**-1.1%**

Source: Executive Office of Administration and Finance, Division of Capital Asset Management. 2002's large change was due to the absorbtion of county properties.

Survey Year 2003	Survey Year 2002	Survey Year 2001	Survey Year 2000	Survey Year 1999
3,137	3,750	4,142	3,476	3,289
263	352	469	395	387
8,428,905	10,124,543	12,346,526	8,802,821	7,998,555
113	113	113	109	76
68	68	62	57	57
4,952,821	4,887,321	4,582,299	4,082,355	4,178,621
539,437	511,732	494,093	482,854	472,313
1,903	2,042	1,727	1,713	1,723
6,601,985	6,965,507	7,101,935	6,933,956	6,937,756
2	2	2	1	1
6	6	5	6	6
76,812	76,812	47,500	57,500	57,500
7,561	7,784	7,779	8,028	8,017
1,068	1,110	854	877	877
13,339,508	13,669,358	12,446,222	12,839,042	12,839,042
7,736	7,484	7,562	7,603	7,630
909	965	1,019	1,026	1,026
4,823,279	4,954,627	4,989,788	5,149,089	5,149,089
233	-	-	-	-
43	-	-	-	-
272,352	-	-	-	-
17,485	17,391	17,366	17,371	17,171
1,069	1,113	584	598	579
13,563,676	13,630,934	7,876,300	11,165,654	7,811,970
7,169	7,353	6,929	6,920	6,871
935	990	721	759	754
30,267,370	30,975,993	26,420,404	28,923,271	28,881,383
582,873	**555,609**	**537,985**	**526,363**	**515,368**
6,264	**6,646**	**5,441**	**5,431**	**5,409**
82,326,708	**85,285,095**	**75,810,974**	**77,953,688**	**73,853,916**
4.9%	**3.3%**	**2.2%**	**2.1%**	**3.2%**
-5.7%	**22.1%**	**0.2%**	**0.4%**	**-2.3%**
-3.5%	**12.5%**	**-2.7%**	**5.6%**	**-1.2%**

Massachusetts Public Higher Education
Enrollment and Degrees Conferred
Last Ten Academic Years

Academic Year	Fall 2007	Fall 2006	Fall 2005	Fall 2004	Fall 2003
ENROLLMENT, TUITION AND FEES					
University System					
Undergraduate (FTE)……	40,806	39,283	38,286	37,598	37,904
Graduate (FTE)……	9,328	8,906	8,549	8,494	8,494
System Enrollment……..…	**50,134**	**48,189**	**46,835**	**46,093**	**46,398**
Tuition and Fees (per student)					
Resident (undergraduate)…… $	**9,305**	**9,000**	**8,697**	**8,437**	**6,801**
State College System					
Undergraduate (FTE)……..….	32,106	31,384	30,464	29,051	29,238
Graduate (FTE)……..……	4,428	4,352	4,258	8,658	8,360
System Enrollment……..…	**36,535**	**35,736**	**34,722**	**37,709**	**37,598**
Tuition and Fees (per student)					
Resident (undergraduate)…… $	**6,123**	**5,855**	**5,448**	**5,100**	**4,590**
Community College System					
Undergraduate (FTE)……	51,257	49,347	48,555	50,972	51,067
Tuition and Fees (per student)……					
Resident……... $	**3,654**	**3,526**	**3,477**	**3,380**	**3,265**

	2008	2007	2006	2005	2004
DEGREES CONFERRED					
University System					
Certificates (MD's)……	270	268	260	167	150
Associate's……..….	96	117	99	95	119
Bachelors……	8,437	8,191	8,089	8,205	7,764
Masters……..….	2,808	2,503	2,484	2,588	2,467
Doctoral……	390	443	371	389	407
**Total Degrees…….. **	**12,001**	**11,522**	**11,303**	**11,444**	**10,907**
State College System					
Certificates……..….	597	615	556	540	490
Bachelors……	6,328	6,207	5,885	5,549	5,525
Masters……..….	2,318	2,201	2,190	2,048	2,157
Total Degrees……..…	**9,243**	**9,023**	**8,631**	**8,137**	**8,172**
Community College System					
Certificates……..….	2,495	2,297	2,422	2,278	2,281
Associates……..……	8,247	7,942	8,024	7,993	7,670
**Total Degrees…….. **	**10,742**	**10,239**	**10,446**	**10,271**	**9,951**
Total All Systems - Degrees……	**31,986**	**30,784**	**30,380**	**29,852**	**29,030**

Source: Massachusetts Board of Higher Education. Enrollment information based at the start of the academic year.

Fall 2002	Fall 2001	Fall 2000	Fall 1999	Fall 1998	Change - 2006 from 1998
37,762	37,961	37,101	37,093	35,759	9.9%
8,334	8,223	8,139	8,405	8,562	4.0%
46,097	**46,184**	**45,240**	**45,498**	**44,321**	**8.7%**
$ 5,798	**$ 4,693**	**$ 4,697**	**$ 4,706**	**$ 4,727**	**90.4%**
26,489	623	26,791	27,058	28,157	11.5%
7,296	7,138	3,860	3,415	3,516	23.8%
33,785	**7,761**	**30,651**	**30,473**	**31,672**	**16.6%**
$ 3,743	**$ 2,954**	**$ 2,962**	**$ 2,984**	**$ 3,103**	**88.7%**
49,483	46,756	44,098	43,094	41,490	18.9%
$ 2,833	**$ 2,273**	**$ 2,153**	**$ 2,182**	**$ 2,297**	**53.5%**

2003	2002	2001	2000	1999	Change - 2008 from 1999
146	196	151	220	182	48.4%
106	111	110	124	109	-11.9%
7,645	7,525	7,489	7,371	6,860	23.0%
2,311	2,165	2,332	2,368	2,180	28.8%
322	358	337	349	333	33.0%
10,530	**10,355**	**10,419**	**10,432**	**9,664**	**24.2%**
535	313	251	356	302	97.7%
5,545	5,096	5,166	5,374	5,298	19.4%
2,053	1,881	1,659	1,593	1,529	44.0%
8,133	**7,290**	**7,076**	**7,323**	**7,129**	**29.7%**
1,947	1,930	1,941	1,764	1,819	37.2%
7,184	6,939	6,958	6,914	6,762	17.5%
9,131	**8,869**	**8,899**	**8,678**	**8,581**	**25.2%**
27,794	**26,514**	**26,394**	**26,433**	**25,374**	**26.1%**

Calculation of Transfers: Stabilization Fund

June 30, 2008

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c, as amended most recently by Chapter 306 of the Acts of 2008, which superceded certain parts of the Section 5c . It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

	Amounts in thousands
I. Undesignated Budgeted Fund Balances before calculation of transfers:	
General Fund	$ 130,047
Highway Fund	-
Workforce Training Fund	-
Division of Energy Resources Credit Trust Fund	-
Massachusetts Tourism Fund	-
International Educational and Foreign Language Grant Program Fund	-
Net consolidated surplus / (deficit)	**$ 130,047**
Less: Amount to be carried forward per Chapter 29, Section 5c(a) per Schedule A	105,047
Less: Amount to be deposited in the Stabilization Fund also per Chapter 29, Section 5c(a) per Schedule A · *Not Applicable for FY2008 Per Chapter 61 of the Acts of 2007, Section 65*	Not Applicable
Net consolidated net surplus after the .05% transfer as defined in Chapter 29, Section 5c, as amended to be deposited into the Stabilization Fund	**$ 25,000**
Chapter 306 of the Acts of 2008, Section 11 Transfers:	
If the Consolidated net surplus is $25,000,000 or less, transfer amount to the Massachusetts Life Sciences Investment Fund	$ 25,000
If the Consolidated net surplus is $41,000,000 or more, transfer amounts as follows:	
Massachusetts Life Sciences Investment Fund	-
Workforce competitiveness Trust Fund	-
Massachusetts Science, Technology, Engineering, and Mathematics Grant Fund	-
Endowment Incentive Holding Fund	-
Farm Capital Linked Loan Fund	-
Rose Fitzgerald Kennedy Greenway Conservancy, Inc	-
Total Transfers of Amounts in Excess of $41,000,000	-
Remaining Amount to transfer to the Stablization Fund	$ -
If the Consolidated net surplus is more than $25,000,000 but less than $41,000,000, proportional transfer amounts:	
Massachusetts Life Sciences Investment Fund ($25,000,000 no reduction)	-
Workforce competitiveness Trust Fund ($3,000,000, reduced)	-
Massachusetts Science, Technology, Engineering, and Mathematics Grant Fund ($2,000,000, reduced)	-
Endowment Incentive Holding Fund ($4,000,000, reduced)	-
Farm Capital Linked Loan Fund ($5,000,000 reduced)	-
Rose Fitzgerald Kennedy Greenway Conservancy, Inc ($2,000,000, reduced)	-
Total Transfers of Amounts more than $25,000,000, but less than $41,000,000	-
Remaining Amount to transfer to the Stablization Fund	**$ -**
Chapter 302 of the Acts of 2008, Section 5 Fund Balance Consolidation:	
Balances Before Consolidation:	
General Fund	$ 1,715,720
Highway Fund	(1,571,583)
Workforce Training Fund	(21,839)
Division of Energy Resources Credit Trust Fund	2,681
Massachusetts Tourism Fund	5,068
International Educational and Foreign Language Grant Program Fund	-
Total	**$ 130,047**
Fund Balance Consolidation Amounts to / (from):	
Highway Fund	$ 1,571,583
Workforce Training Fund	21,839
General Fund	(1,715,720)
Division of Energy Resources Credit Trust Fund	(2,681)
Massachusetts Tourism Fund	(5,068)
International Educational and Foreign Language Grant Program Fund	-
Net	**$ (130,047)**
Stabilization Balance Reconciliation:	
Balance as of July 1, 2007	$ 2,335,021
Investment income, certain tax revenues and other recoveries	99,173
Transfers from Stabilization	(315,000)
Stabilization Fund Balance	**$ 2,119,194**

Calculation Of Transfers: Tax Reduction Fund

June 30, 2008
(Amounts in thousands)

This statement is prepared pursuant to Chapters 29 of the Massachusetts General Laws, as amended. It is prepared on the statutory basis of accounting and presents information contained in the official books and accounting records of the Commonwealth. Sup

The computation is as follows:

Part 1: Comparison of Stabilization Fund, after current fiscal year transfers, to 15% of budgeted revenues and other financial resources:		
Undesignated fund balance in the Stabilization Fund	$	2,119,194
Allowable Stabilization Fund balance (per Schedule B)		4,546,976
Stabilization Fund excess, if any, transferable to Tax Reduction Fund	$	-
Part 2: Status of Stabilization Fund after transfers:		
Stabilization Fund balance	$	2,119,194
Transfer to Tax Reduction Fund		-
Stabilization Fund balance after transfer to Tax Reduction Fund	$	2,119,194
Part 3: Status of Tax Reduction Fund after transfers:		
Tax Reduction Fund balance	$	-
Transfers from Stabilization Fund		-
Tax Reduction Fund balance after transfers	$	-

MASSACHUSETTS GENERAL INFORMATION

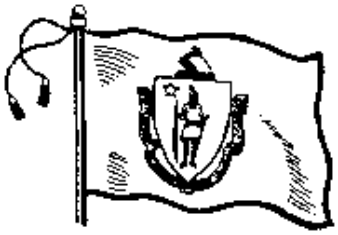
Admitted to Union (6th State): 1788
Population: 6,449,755

Capital: Boston
Nickname: Bay State

The State Seal

The State Seal, adopted by Governor John Hancock and the Council on December 13, 1780 and made official by the General Court on June 4, 1885, is circular and bears a representation of the arms of the Commonwealth encircled with the words "Sigillum Reipublicae Massachusettensis" (Seal of the Republic of Massachusetts). The arms, according to legislative enactment, consists of "a shield having a blue field or surface with an Indian thereon, dressed in a shirt and moccasins, holding in his right hand a bow, and in his left hand an arrow, point downward, all of gold; and in the upper corner of the field, above his right arm, bent at the elbow, clothed and ruffled, with the hand grasping a broadsword."

The State Flag



The State Flag is white, bearing on both sides a representation of the coat of arms. It was adopted in its final form in 1971; before that, the obverse side depicted a pine tree.

The State Flower

The Mayflower

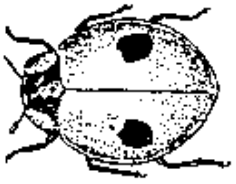
The State Fish

The Cod, a soft-finned fish, usually 10-20bs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

The State Bird

The Black Capped Chickadee

The State Insect



The Lady Bug

The State Tree

The American Elm was adopted as the official tree March 21, 1941 to commemorate the fact that General George Washington took command of the Continental Army beneath one on Cambridge Common in 1775.

The State Dog

The Boston Terrier, the first purebred dog developed in America (1869), is a cross between an English bulldog and an English terrier.

Beverage: Cranberry Juice
Dessert: Boston Cream Pie

Muffin: The Corn Muffin
Cookie: Chocolate Chip

Horse: The Morgan Horse
Bean: Navy Bean

Blackstone Valley Celtic Festival

Singer-songwriter Robbie O'Connell says the Blackstone Valley Celtic Festival, where he's performed several times, reminds him of the country fairs he used to savor as a boy in Ireland. "You almost feel like you're in rural Ireland," he says, "with farm land all around, and a view of the valley and the hills in the distance."

This festival takes place on Webster Lake and transforms the area into a village of all things Celtic, children's entertainment, dance, and traditional food and fare in a pub-style atmosphere.

Music headliners included The Makem and Spain Brothers, Fiddlers3, Charlie Zahm, Alison Barber, Poor Angus, STONE-CROSS, and the O'Shea-Chapin Academy dancers, and Sean Kean, Comhaltas Ceoltóirí Éireann Ceilí Band.

Staff from the Higgins Amory Museum displayed period appropriate armor and weaponry and demonstrated how a Celtic knight would have dressed and prepared for battle. Blacksmiths also showed their forging skills. In the infamous Men in Kilts contest, gentlemen of all ages were encouraged to compete for prizes and most of all, for the notoriety.

Photography & Text courtesy of the Blackstone Valley Celtic Festival

Betances Festival

Established in 1973, the Betances Festival commemorates the life and achievements of Dr. Ramón Emeterio Betances, a 19th-century Puerto Rican patriot, poet, medical doctor, abolitionist, and artist.

Celebrating its 36th year of existence, Festival Betances is the oldest Latino community arts festival in New England. Produced through a collaboration between the dynamic community building agency Inquilinos Boricuas en Accion (IBA), our Casa de la Cultura/Center for Latino Arts and the residents of Villa Victoria, this festival celebrates Puerto Rican and Latino arts and culture, the founding fathers of Villa Victoria and the memory of Puerto Rican patriot Dr. Ramón Emeterio Betances. Featuring an array of activities including artistic performances, youth and family events, traditional foods, handcrafts and vendors, Festival Betances has become an icon of Latino culture in the city of Boston and the region. Attracting an average of 5,000 people per year, this community festival is a wonderful opportunity for Latinos to celebrate their heritage and for non-Latinos to experience the sights, sounds and tastes of Puerto Rican and Latino culture.

Photography & Text courtesy of David Kay, IBA